

HAWAII THEATRE CENTER

FINANCIAL STATEMENTS
As of and for the Year Ended May 31, 2020
With Prior Year Comparative Information
And Independent Accountant's Review Report



CW Associates
A Hawaii Certified Public Accounting Corporation



CW Associates

A Hawaii Certified Public Accounting Corporation

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Hawaii Theatre Center:

Report on the Financial Statements

We have reviewed the accompanying financial statements of the Hawaii Theatre Center (Center), a nonprofit Hawaii corporation, which comprise the statement of financial position as of May 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants (AICPA). Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Center and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Topa Financial Center
700 Bishop Street, Suite 1040
Honolulu, Hawaii 96813
Telephone (808) 531-1040
Facsimile (808) 531-1041
www.cwassociatescpas.com

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

As discussed in Note B to the financial statements, the Center has suffered recurring losses from operations and has current liabilities in excess of its current assets. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note B to the financial statements. Our conclusion is not modified with respect to this matter.

Emphasis of Matter with Respect to Changes in Accounting Methods

As discussed in Note A to the financial statements, during the year ended May 31, 2020, the Center adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contract with Customers (Topic 606)*; ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our conclusion is not modified with respect to this matter.

Report on 2019 Financial Statements

The Center's financial statements as of and for the year ended May 31, 2019 were audited by us, and we expressed an unmodified opinion on them in our reported dated December 10, 2019. We have not performed any auditing procedures since that date.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
August 2, 2021

HAWAII THEATRE CENTER
STATEMENT OF FINANCIAL POSITION
As of May 31, 2020
(With Prior Year Comparative Information)

	2020 <u>(Reviewed)</u>	2019 <u>(Audited)</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 163,182	\$ 565,754
Accounts receivable – net	48,657	148,471
Prepaid expenses and other assets	<u>73,957</u>	<u>79,778</u>
Total current assets	<u>285,796</u>	<u>794,003</u>
NONCURRENT ASSETS		
Investments in marketable securities	114,097	104,043
Property and equipment – net	8,531,943	8,933,443
Rental property – net	<u>3,531,148</u>	<u>3,543,999</u>
Total noncurrent assets	<u>12,177,188</u>	<u>12,581,485</u>
TOTAL ASSETS	<u><u>\$12,462,984</u></u>	<u><u>\$13,375,488</u></u>

(Continued)

HAWAII THEATRE CENTER

STATEMENT OF FINANCIAL POSITION (Continued)

**As of May 31, 2020
(With Prior Year Comparative Information)**

	<u>2020</u>	<u>2019</u>
	<u>(Reviewed)</u>	<u>(Audited)</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 566,071	\$ 432,887
Deferred revenue	172,053	322,269
SBA PPP loan – current	67,300	-
Capital lease obligation – current	-	30,300
Note payable – current	17,300	-
Total current liabilities	<u>822,724</u>	<u>785,456</u>
NONCURRENT LIABILITIES		
SBA PPP loan – noncurrent	106,500	-
Capital lease obligation – noncurrent	-	21,624
Note payable – noncurrent	713,441	-
Liability for deferred compensation plan	114,097	104,043
Liability for lease security deposits	34,483	19,212
Total noncurrent liabilities	<u>968,521</u>	<u>144,879</u>
TOTAL LIABILITIES	<u>1,791,245</u>	<u>930,335</u>
NET ASSETS (DEFICIT)		
Net assets (deficit) without donor restrictions		
Undesignated	(1,509,214)	(479,631)
Invested in property and equipment	8,531,943	8,881,519
Invested in rental property	3,531,148	3,543,999
Total net assets without donor restrictions	<u>10,553,877</u>	<u>11,945,887</u>
Net assets with donor restrictions	117,862	499,266
Total net assets	<u>10,671,739</u>	<u>12,445,153</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$12,462,984</u>	<u>\$13,375,488</u>

See accompanying notes to the financial statements
and independent accountant's review report.

HAWAII THEATRE CENTER

STATEMENT OF ACTIVITIES

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

	<u>2020</u> <u>(Reviewed)</u>	<u>2019</u> <u>(Audited)</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Tickets and advertising	\$ 735,422	\$ 955,357
Net assets released from donor restrictions for programs	145,220	45,500
HTC rentals and box office fees	494,418	718,284
Restoration surcharge	177,591	252,663
Rental operations	149,123	135,177
Concession and merchandise sales, and other income	111,400	158,553
Membership and seat campaign	109,714	128,696
Contributions and planned gifts without donor restrictions	93,930	212,580
Education program fees	52,428	30,890
Grants and sponsorships without donor restrictions	31,966	33,046
Investment income – net	10,174	2,782
Total revenue and support	<u>2,111,386</u>	<u>2,673,528</u>
Expenses		
Program services		
Theatre operations	2,953,165	2,957,790
Rental operations	97,391	130,365
Total program services	<u>3,050,556</u>	<u>3,088,155</u>
Supporting services		
Management and general	512,091	434,739
Fundraising	440,749	405,464
Total supporting services	<u>952,840</u>	<u>840,203</u>
Total expenses	<u>4,003,396</u>	<u>3,928,358</u>
Revenue and support less expenses	(1,892,010)	(1,254,830)
Net assets released from capital restrictions	500,000	-
Decrease in net assets without donor restrictions	<u>(1,392,010)</u>	<u>(1,254,830)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions with donor restrictions	263,816	416,904
Net assets released from donor restrictions	(645,220)	(45,500)
Increase (decrease) in net assets with donor restrictions	<u>(381,404)</u>	<u>371,404</u>
DECREASE IN NET ASSETS	(1,773,414)	(883,426)
NET ASSETS – Beginning of year	<u>12,445,153</u>	<u>13,328,579</u>
NET ASSETS – End of year	<u>\$ 10,671,739</u>	<u>\$ 12,445,153</u>

See accompanying notes to the financial statements
and independent accountant's review report.

HAWAII THEATRE CENTER
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2020
(With Prior Year Comparative Information)

	Theatre Operations	Rental Operations	Total Program Services	Management and General	Fund- Raising	Total Supporting Services	2020 Total <u>(Reviewed)</u>	2019 Total <u>(Audited)</u>
Salaries and related expenses								
Salaries and wages	\$ 503,393	\$ -	\$ 503,393	\$152,496	\$157,118	\$309,614	\$ 813,007	\$ 799,115
Employee benefits	93,952	-	93,952	27,701	28,541	56,242	150,194	106,973
Payroll taxes	42,296	-	42,296	13,004	13,397	26,401	68,697	69,099
Salaries, wages, and benefits	639,641	-	639,641	193,201	199,056	392,257	1,031,898	975,187
Depreciation	834,310	12,851	847,161	46,351	46,351	92,702	939,863	938,360
Production costs	815,200	-	815,200	-	-	-	815,200	859,218
Utilities	154,412	36,737	191,149	46,782	48,179	94,961	286,110	284,403
Advertising and promotion	163,371	-	163,371	2,119	9,897	12,016	175,387	136,758
Repairs and maintenance	101,473	16,817	118,290	24,431	27,245	51,676	169,966	128,696
Professional and contract services	38,797	2,402	41,199	79,047	10,616	89,663	130,862	110,318
Insurance	40,699	-	40,699	40,699	41,932	82,631	123,330	80,698
License and fees	59,476	-	59,476	36,927	1,789	38,716	98,192	103,577
Taxes, other than income taxes	5,582	26,715	32,297	10,962	5,751	16,713	49,010	74,096
Education program	46,098	-	46,098	-	-	-	46,098	65,171
Development	-	-	-	-	34,828	34,828	34,828	44,771
Cost of concession sales	28,146	-	28,146	-	-	-	28,146	31,278
Supplies and equipment	10,175	619	10,794	7,596	7,825	15,421	26,215	23,149
Travel and transportation	12,583	-	12,583	4,307	4,438	8,745	21,328	32,642
Interest	-	-	-	16,783	-	16,783	16,783	7,094
Miscellaneous	3,202	1,250	4,452	2,886	2,842	5,728	10,180	32,942
Total expenses	<u>\$2,953,165</u>	<u>\$97,391</u>	<u>\$3,050,556</u>	<u>\$512,091</u>	<u>\$440,749</u>	<u>\$952,840</u>	<u>\$4,003,396</u>	<u>\$3,928,358</u>

See accompanying notes to the financial statements
and independent accountant's review report.

HAWAII THEATRE CENTER
STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2020
(With Prior Year Comparative Information)

	2020 <u>(Reviewed)</u>	2019 <u>(Audited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$(1,773,414)	\$ (883,426)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation of property and equipment	927,012	925,509
Depreciation of rental property	12,851	12,851
Gain on investments in marketable securities	(10,054)	(1,485)
(Increase) decrease in		
Accounts receivable – net	99,814	(28,554)
Prepaid expenses and other assets	5,821	7,825
Increase (decrease) in		
Accounts payable and accrued liabilities	133,184	110,582
Deferred revenue	(150,216)	(42,345)
Liability for deferred compensation plan	10,054	(2,474)
Net cash provided (used) by operating activities	<u>(744,948)</u>	<u>98,483</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments in marketable securities	-	37,076
Purchases of investments in marketable securities	-	(1,568)
Purchases of property and equipment	(525,512)	(3,991)
Increase in liability for lease security deposits	15,271	-
Net cash provided (used) by investing activities	<u>(510,241)</u>	<u>31,517</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Addition to SBA PPP loan	173,800	-
Addition to note payable	735,000	-
Repayments of note payable	(4,259)	-
Payments on capital lease obligation	(51,924)	(39,777)
Net cash provided (used) by financing activities	<u>852,617</u>	<u>(39,777)</u>
NET INCREASE (DECREASE) IN CASH	(402,572)	90,223
CASH – Beginning of year	<u>565,754</u>	<u>475,531</u>
CASH – End of year	<u>\$ 163,182</u>	<u>\$ 565,754</u>
SUPPLEMENTAL INFORMATION		
Cash paid during the year for interest	\$ 16,783	\$ 7,094

See accompanying notes to the financial statements
and independent accountant's review report.

HAWAII THEATRE CENTER
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended May 31, 2020
(With Prior Year Comparative Information)

NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Hawaii Theatre Center (Center) was incorporated in the State of Hawaii as a non-profit corporation in April 1984. Its mission is to restore, renovate, and operate the Hawaii Theatre (Theatre) as a leading performance center in downtown Honolulu; to benefit the people of Hawaii and visitors to Honolulu by providing a broad range of entertainment, cultural, and educational experiences in a facility of recognized excellence; providing educational opportunities for Hawaii’s young people; promoting the redevelopment of downtown Honolulu and stimulating its use in the evening and on weekends; and enhancing the quality of life in Honolulu.

In March 2020, the Theatre temporarily closed due to government-mandated restrictions and shut downs as a result of the COVID-19 pandemic. The Theatre remains closed to in-person events through the date these financial statements were available to be issued, but is expected to reopen during the year ended May 31, 2022. The Theatre provides online, virtual programming while closed to in-person events.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Center to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of the Center’s management and Board of Directors.

Net Assets with Donor Restrictions consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity (none in 2020 and 2019).

The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the prior year financial statements of the Center, from which the information was derived. Certain amounts in the prior year financial information have been reclassified to conform to the current year presentation. These reclassifications have no effect on previously reported changes in net assets.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Center to credit risk include cash, accounts receivable, and investments in marketable securities. Cash on deposit with financial institutions, which was fully insured at May 31, 2020, exceeded the related federal deposit insurance by approximately \$217,600 at May 31, 2020. Management evaluates the credit standings of these financial institutions to ensure that such deposits are adequately safeguarded. Accounts receivable, which are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections, are adjusted for all known doubtful accounts (none at May 31, 2020 and 2019). Investments in marketable securities are fully insured by federal and private insurance, as represented by the custodian. Future changes in market prices may make the investments less valuable.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Net realized and unrealized gains and losses, determined using the specific identification method, are included in investment income. Investments are classified as current or noncurrent depending upon their availability. Investments that are held for program purposes or other short-term purposes are classified as current. Investments that are held for the deferred compensation plan or other long-term purposes are classified as noncurrent.

Property and Equipment, and Rental Property

Property and equipment, and rental property, are stated at cost or, if contributed, at estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of 40 years for buildings and improvements, and three to seven years for furniture and fixtures, and equipment. Property and equipment, and rental property, are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Major improvements and expenditures for property and equipment in excess of \$500 and with useful lives over one year are capitalized. Repairs and maintenance are expensed as incurred.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2020 (With Prior Year Comparative Information)

NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expense Recognition

Revenue from performance obligations satisfied at a point in time consists of tickets and advertising, HTC rentals and box office fees, restoration surcharge, concession and merchandise sales, and education program fees. Revenue from performance obligations satisfied over time consists of rental operations, and membership and seat campaign. The Center recognizes membership revenue equal to the fair value of the direct benefits to members and contribution income for the excess received over the membership fee. Revenue from sources other than performance obligations consists of other income and investment income. See Note J for a disaggregation of revenue. The Center did not have contract assets and contract liabilities as of May 31, 2020 and 2019.

For performance obligations related to tickets and advertising, HTC rentals and box office fees, restoration surcharge, concession and merchandise sales, and education program fees, the Center transfers control and records revenue when the show occurs, when the concession or merchandise is delivered to the customer, or when the education program occurs. For performance obligations related to income from rental operations, revenue is recognized over the course of the lease agreement with the passage of time when control of the promised space is transferred to the lessee. For performance obligations related to membership and seat campaign, revenue for the direct benefit to members is recognized over the course of the membership agreement when the membership benefits are transferred to the member, and the contribution portion when the payment for the membership is received.

Revenue is measured based on the consideration specified in a contract with the customers, and excludes any sales incentives and amounts collected on behalf of third parties. The Center does not have any significant financing components as payment is received before, at, or shortly after the show and education program occurs, when the concession or merchandise is delivered, and when the promised space or membership benefits is provided.

Expenses are recorded when the related liability is incurred. Advertising and promotion costs, amounting to \$175,387 and \$136,758 for the years ended May 31, 2020 and 2019, respectively, are expensed the first time the advertising takes place.

The Center allocates its expenses on a functional basis among its various programs and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions include depreciation, utilities, repairs and maintenance, and insurance. These expenses are allocated based on estimates of management of the efforts of the Center's personnel and the use of the facilities by each function.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Donor Contributions

The Center's revenue from grants is based on agreements with the State of Hawaii and other entities such as private foundations. The Center recognizes grants as either contributions or exchange transactions depending on whether the transaction is reciprocal or nonreciprocal.

The Center recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, which are those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Support is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

Donated Goods and Services

In-kind contributions of goods and services that meet the criteria for recognition are recognized by the Center as contributions at the estimated fair market value at the date of donation, and are recorded as expenses or assets in the same amount. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Center. A substantial number of unpaid volunteers have made significant contributions of their time to the Center. The value of their time is not reflected in these financial statements because it does not meet the criteria for recognition.

Hawaii General Excise Tax

The State of Hawaii (State) imposes a general excise tax of 4% on the gross receipts of the Center from rental income and special events within the State, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax expense amounted to approximately \$12,100 and \$13,600 for the years ended May 31, 2020 and 2019, respectively.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2020 (With Prior Year Comparative Information)

NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Center is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Center are tax deductible.

U.S. GAAP requires uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management evaluated the Center's tax positions as of May 31, 2020 and 2019 and for the years then ended and determined that the Center had no uncertain tax positions required to be reported in accordance with U.S. GAAP. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

Adoption of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. This ASU eliminated the transaction-specific and industry-specific revenue recognition guidance under existing U.S. GAAP and replaced it with a principle based approach for determining revenue recognition.

To achieve the core principle, an entity should apply the following steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Center early implemented this ASU during the year ended May 31, 2020 using the modified retrospective transition method, whereby contracts that were not substantially complete as of June 1, 2019 were evaluated under this ASU and the cumulative effect of initially applying this ASU, if any, would be recognized as an adjustment to net assets as of that date. The cumulative effect of applying this ASU was not significant to the Center's financial position or results of operations as of June 1, 2019 and for the year ended May 31, 2020.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a framework for determining when a transaction should be accounted for as a contribution or as an exchange transaction. This ASU also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2020 (With Prior Year Comparative Information)

NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements (continued)

The Center implemented this ASU during the year ended May 31, 2020 using the modified prospective transition method, whereby only contributions that were not previously recognized as revenue are affected. This ASU did not have a significant impact on the financial statements of the Center as of and for the year ended May 31, 2020.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that the statement of cash flows includes all cash and cash equivalents, whether the cash is unrestricted or restricted. The implementation of this ASU during the year ended May 31, 2020 did not have an impact on the Center's financial statements.

NOTE B – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Center incurred significant losses during and prior to the years ended May 31, 2020 and 2019, resulting in significant decreases in its financial position and net assets, and had a working capital deficiency at May 31, 2020. The losses for the year ended May 31, 2020 are partially attributable to the COVID-19 pandemic, which resulted in the Theatre being closed from March 2020. As of the date these financial statements were available to be issued, the Theatre continues to be closed due to the COVID-19 pandemic. Due to the Center being closed, certain vendors such as the utility providers were not paid from March 2020 increasing the Center's liability balances. Management negotiated payment plans with certain of these vendors.

To address its financial position, the Center obtained two Paycheck Protection Program (PPP) loans totaling \$328,041 through the program established by the U.S. Small Business Administration (SBA) (see Note G). The Center also received \$428,937 from the Shuttered Venue Operators Grant program (SVOG) (see Note G). Management also applied for and received \$150,000 from an Economic Injury Disaster Loan (EIDL) (see Note G). Management believes these funds and the revenue that will be generated once the Theatre reopens will provide sufficient funding to meet its obligations and to allow the Center to continue operating for at least one year from the date these financial statements were available to be issued.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE B – LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

The following reflects the Center’s financial assets as of May 31, 2020 and 2019, reduced by amounts not available for use within one year of the statement of financial position date for general operations because of contractual or donor-imposed restrictions:

	<u>2020</u> <u>(Reviewed)</u>	<u>2019</u> <u>(Audited)</u>
Cash (including interest-bearing accounts)	\$ 163,182	\$ 565,754
Accounts receivable – net	<u>48,657</u>	<u>148,471</u>
Total financial assets	211,839	714,225
Net assets with donor restrictions	<u>(117,862)</u>	<u>(499,266)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 93,977</u>	<u>\$ 214,959</u>

NOTE C – INVESTMENTS IN MARKETABLE SECURITIES

At May 31, 2020 and 2019, investments in marketable securities consisted of the following:

	<u>2020</u> <u>(Reviewed)</u>	<u>2019</u> <u>(Audited)</u>
Mutual funds	<u>\$ 114,097</u>	<u>\$ 104,043</u>
Total investments in marketable securities	<u>\$ 114,097</u>	<u>\$ 104,043</u>

For the years ended May 31, 2020 and 2019, net investment income consisted of the following:

	<u>2020</u> <u>(Reviewed)</u>	<u>2019</u> <u>(Audited)</u>
Unrealized gain from holding investments in marketable securities	\$ 10,054	\$ 323
Realized gain from sales of investments in marketable securities	-	1,162
Interest and dividends	<u>120</u>	<u>1,297</u>
Investment income – net	<u>\$ 10,174</u>	<u>\$ 2,782</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE D – FAIR VALUE MEASUREMENTS

U.S. GAAP provides a hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three levels of the fair value hierarchy. Level 1 inputs to the valuation methodologies consist of unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At May 31, 2020 and 2019, the fair value measurements reportable by the Center consisted of investments in mutual funds valued at quoted market prices for which Level 1 valuation inputs were required. There were no investments for which Level 2 and 3 valuation inputs were required. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

The following sets forth by level, within the fair value hierarchy, the investments in marketable securities of the Center at fair value as of May 31, 2020 (reviewed):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 90,287	\$ -	\$ -	\$ 90,287
Fixed income funds	13,323	-	-	13,323
Targeted allocation funds	10,487	-	-	10,487
Total mutual funds	<u>114,097</u>	<u>-</u>	<u>-</u>	<u>114,097</u>
Total investments in marketable securities, at fair value	<u>\$ 114,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,097</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the investments in marketable securities of the Center at fair value as of May 31, 2019 (audited):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 80,136	\$ -	\$ -	\$ 80,136
Fixed income funds	13,480	-	-	13,480
Targeted allocation funds	10,427	-	-	10,427
Total mutual funds	<u>104,043</u>	<u>-</u>	<u>-</u>	<u>104,043</u>
Total investments in marketable securities, at fair value	<u>\$104,043</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$104,043</u>

NOTE E – PROPERTY AND EQUIPMENT

At May 31, 2020 and 2019, property and equipment consisted of the following:

	2020 <u>(Reviewed)</u>	2019 <u>(Audited)</u>
Land	\$ 981,884	\$ 981,884
Buildings and improvements	22,305,601	22,305,601
Furniture and fixtures	5,172,970	4,672,970
Equipment	387,374	361,862
Total	<u>28,847,829</u>	<u>28,322,317</u>
Accumulated depreciation	<u>(20,315,886)</u>	<u>(19,388,874)</u>
Property and equipment – net	<u>\$ 8,531,943</u>	<u>\$ 8,933,443</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE F – RENTAL PROPERTY

At May 31, 2020 and 2019, rental property consisted of the following:

	<u>2020</u> <u>(Reviewed)</u>	<u>2019</u> <u>(Audited)</u>
Land	\$3,476,044	\$3,476,044
Building	<u>379,781</u>	<u>379,781</u>
Total	3,855,825	3,855,825
Accumulated depreciation	<u>(324,677)</u>	<u>(311,826)</u>
 Rental property – net	 <u>\$3,531,148</u>	 <u>\$3,543,999</u>

The Center leases property adjacent to the Theatre to commercial tenants under operating leases expiring at various dates through May 2030. At May 31, 2020, future minimum lease rent receipts approximated the following:

Years Ending May 31st	
2021	\$ 182,600
2022	\$ 219,100
2023	\$ 230,000
2024	\$ 224,800
2025	\$ 225,900
Thereafter (cumulative)	\$1,042,000

NOTE G – SBA PPP LOAN, SVOG, AND SBA EIDL

In April 2020, the Center applied for and received a \$173,800 PPP loan from American Savings Bank (Bank). The SBA established the PPP loan program in response to the COVID-19 pandemic to fund an entity’s payroll and other applicable costs. All or a portion of the loan, which matures two years from the date of funding and bears interest at 1%, may be forgiven if the Center meets the compliance requirements established by the SBA and other federal agencies. On November 18, 2020, the SBA approved forgiveness of the PPP loan.

The federal Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020, provides for a PPP loan second draw and other additional fiscal relief for entities impacted by the COVID-19 pandemic. In March 2021, the Center applied for and received a PPP loan second draw from the Bank in the amount of \$154,241. The PPP loan second draw bears interest at 1% and matures five years from the date of funding.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE G – SBA PPP LOAN, SVOG, AND SBA EIDL (Continued)

In June 2020, the Center applied for and received a \$150,000 Economic Injury Disaster Loan (EIDL) from the SBA. The SBA established the EIDL program in response to the COVID-19 pandemic to fund an entity's working capital and normal operating expenses. The EIDL bears interest at 2.75%, requires monthly payments of principal and interest of \$641 beginning in June 2021, matures in June 2050, and is collateralized by substantially all of the assets of the Center, and includes covenants that may require the Center to make reports to the SBA.

In July 2021, the Center received a \$498,900 SVOG, which does not need to be repaid if the Center utilizes the funds for appropriate COVID-19 pandemic related costs. In July 2021, the Center applied for a supplemental SVOG of \$580,000 that will be awarded if there are sufficient funds in the SVOG program.

NOTE H – NOTE PAYABLE

In November 2019, the Center obtained a \$735,000 loan from the Bank. The loan bears interest at 4.125%, requires monthly payments of principal and interest of \$3,930, matures in December 2029, and is collateralized by real property. At May 31, 2020, the outstanding balance on the loan amounted to \$730,741.

The note payable to the Bank includes covenants that limit the Center's ability to borrow or incur liabilities, make investments, purchase property and equipment; limit or prohibit certain other transactions; and require the Center to maintain certain financial ratios and to make periodic reports to the Bank.

At May 31, 2020, scheduled maturities of the note payable approximated the following:

Years Ending May 31st	
2021	\$ 17,300
2022	18,100
2023	18,800
2024	19,500
2025	20,400
Thereafter (cumulative)	<u>636,641</u>
Total note payable	<u>\$ 730,741</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

At May 31, 2020 and 2019, net assets with donor restrictions consisted of the following:

	2020 <u>(Reviewed)</u>	2019 <u>(Audited)</u>
Interior/exterior lighting improvements	\$ -	\$ 371,404
Organ restoration	102,862	102,862
Educational programming	<u>15,000</u>	<u>25,000</u>
 Total net assets with donor restrictions	 <u>\$ 117,862</u>	 <u>\$ 499,266</u>

NOTE J – DISAGGREGATION OF REVENUE

For the years ended May 31, 2020 and 2019, revenue from performance obligations satisfied at a point in time, revenue from performance obligations satisfied over time, and revenue from sources other than performance obligations consisted of the following:

	2020 <u>(Reviewed)</u>	2019 <u>(Audited)</u>
Revenue from performance obligations satisfied at a point in time		
Tickets and advertising	\$ 735,422	\$ 955,357
HTC rentals and box office fees	494,418	718,284
Restoration surcharge	177,591	252,663
Concession and merchandise sales	109,625	157,820
Education program fees	<u>52,428</u>	<u>30,890</u>
 Total revenue from performance obligations satisfied at a point in time	 <u>\$ 1,569,484</u>	 <u>\$ 2,115,014</u>
 Revenue from performance obligations satisfied over time		
Rental operations	\$ 149,123	\$ 135,177
Membership and seat campaign	<u>9,995</u>	<u>18,650</u>
 Total revenue from performance obligations satisfied over time	 <u>\$ 159,118</u>	 <u>\$ 153,827</u>
 Revenue from sources other than performance obligations		
Other income	\$ 1,775	\$ 733
Investment income – net	<u>10,174</u>	<u>2,782</u>
 Total revenue from sources other than performance obligations	 <u>\$ 11,949</u>	 <u>\$ 3,515</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2020 (With Prior Year Comparative Information)

NOTE K – EMPLOYEE BENEFIT PLANS

The Center sponsors a defined contribution, salary reduction retirement plan covering substantially all of its employees, to which it may make discretionary contributions up to the maximum allowed under Internal Revenue Code Section 403(b). The Center did not contribute to this plan for the years ended May 31, 2020 and 2019.

The Center also sponsors a defined contribution, deferred compensation plan under Section 457(b) of the Internal Revenue Code that covers certain key employees. Eligibility is determined by the Center's Board of Directors. Contributions to this plan are determined annually by the Center's Board of Directors. There were no contributions to this plan for the years ended May 31, 2020 and 2019. The assets and liabilities of the Center included \$114,097 and \$104,043 related to the deferred compensation plan at May 31, 2020 and 2019, respectively.

The Center participates in a multiple-employer defined contribution retirement plan covering substantially all of its employees who meet age and length of service requirements. The Center provides a matching contribution and may also make discretionary non-matching contributions up to the maximum allowed under Section 401(k) of the Internal Revenue Code, subject to approval of its Board of Directors. The Center's contributions to the plan amounted to \$21,903 and \$23,910 for the years ended May 31, 2020 and 2019, respectively.

NOTE L – COMMITMENTS

Leases

The Center leased the theatre marquee under a capital lease agreement that expired in March 2020. At May 31, 2020 and 2019, the cost of the marquee amounted to \$155,000, and the related accumulated depreciation amounted to \$71,042 and \$55,542, respectively.

Power Purchase Agreement

The Center is party to a Solar Power Purchase and Sales and Use Agreement (Agreement) that provides for the Center to purchase 100% of the energy output from a solar energy facility installed, operated, and maintained within the premises of the Theatre. The Agreement bears an initial rate of \$0.22/kWh, with an annual escalation rate of 3% for 20 years following the commercial operation date of the system (April 23, 2013). The Center has an option to extend the term of the Agreement for an additional ten years. The Agreement is subject to early termination by the Center for a fee, and may be purchased by the Center at the end of the term for fair market value. Utility charges under the Agreement for electrical energy amounted to \$31,248 and \$36,176 for the years ended May 31, 2020 and 2019, respectively.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2020
(With Prior Year Comparative Information)**

NOTE M – CONTINGENCIES

The Center may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

The Center operates in the State of Hawaii. Local, national, and international events (such as the COVID-19 pandemic) can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if the Center were to account for future losses or asset impairments, as the effects on the financial statements of the Center from such changes in economic conditions are not presently determinable.

The COVID-19 pandemic has caused business disruption from government-mandated and voluntary closings or reductions in services for all industries, and affected the fair value of marketable securities. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the economic impact from such disruption. The Center expects that this matter will continue to negatively impact its operating results; however, the related financial impact cannot be reasonably estimated at this time.

NOTE N – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 2, 2021, which is the date the financial statements were available to be issued, and determined the Center did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements, except as disclosed above in Notes B and G to the financial statements.
