

**HALE CENTRE THEATRE**  
**(A Non-Profit Organization)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2010, 2009, and 2008**

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**INDEPENDENT AUDITORS' REPORT**

**Board of Trustees  
Hale Centre Theatre  
Salt Lake City, Utah**

We have audited the accompanying consolidated statements of financial position of Hale Centre Theatre (the Organization) (a non-profit organization) as of December 31, 2010, 2009, and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hale Centre Theatre as of December 31, 2010, 2009, and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Wisan Smith Racker & Prescott LLP*

Salt Lake City, Utah  
March 23, 2011

**HALE CENTRE THEATRE**  
**(A Non-Profit Organization)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2010, 2009, and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Unrestricted cash and cash equivalents	\$ 777,516	\$ 500,009	\$ 178,803
Endowment account	12,237	11,023	9,670
Investments	10,689	7,908	6,768
Receivables:			
Grants receivable	182,954	240,963	328,012
Contributions receivable	5,000	5,000	10,000
Prepaid expenses	172,412	120,737	218,298
Other current asset	-	1,255	-
TOTAL CURRENT ASSETS	<u>1,160,808</u>	<u>886,895</u>	<u>751,551</u>
PROPERTY AND EQUIPMENT	3,214,060	3,394,084	3,564,688
<b>OTHER ASSETS</b>			
Loan costs (net of amortization)	6,878	7,794	8,712
DEFERRED COMPENSATION TRUST FUNDS	<u>373,761</u>	<u>262,377</u>	<u>133,784</u>
TOTAL ASSETS	<u>\$ 4,755,507</u>	<u>\$ 4,551,150</u>	<u>\$ 4,458,735</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 56,626	\$ 28,414	\$ 63,122
Accrued expenses	228,314	208,547	200,626
Deferred revenue	2,776,464	2,764,683	2,504,435
Current portion of long-term note payable	<u>23,245</u>	<u>21,641</u>	<u>20,148</u>
TOTAL CURRENT LIABILITIES	3,084,649	3,023,285	2,788,331
LONG-TERM NOTE PAYABLE	1,190,077	1,211,947	1,232,289
DEFERRED COMPENSATION PAYABLE	<u>373,761</u>	<u>262,377</u>	<u>133,784</u>
TOTAL LIABILITIES	<u>4,648,487</u>	<u>4,497,609</u>	<u>4,154,404</u>
<b>NET ASSETS</b>			
Unrestricted	<u>107,020</u>	<u>53,541</u>	<u>304,331</u>
TOTAL NET ASSETS	<u>107,020</u>	<u>53,541</u>	<u>304,331</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,755,507</u>	<u>\$ 4,551,150</u>	<u>\$ 4,458,735</u>

*The accompanying notes are an integral part of the financial statements.*

**HALE CENTRE THEATRE**  
**(A Non-Profit Organization)**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**Years ended December 31, 2010, 2009, and 2008**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
<b>REVENUES AND SUPPORT</b>			
Admissions and processing fees	\$ 4,466,416	\$ 4,340,590	\$ 4,108,171
Contributions	1,315,779	1,059,116	1,489,130
In-kind donations	175,366	109,456	119,052
Concession and gift sales	192,742	212,152	185,639
Rental income	111,330	125,952	118,894
Acting class fees	79,319	61,878	73,658
Gain (loss) on sale of assets	4,695	8,782	(20,703)
Miscellaneous	24,035	58,681	66,899
Interest and investment income	1,259	500	11,972
<b>TOTAL REVENUES AND SUPPORT</b>	6,370,941	5,977,107	6,152,712
<b>EXPENDITURES</b>			
Program services	3,074,744	3,118,500	3,034,159
Fundraising activities	386,836	402,111	417,472
Management and general	2,853,917	2,702,940	2,815,622
<b>TOTAL EXPENDITURES</b>	6,315,497	6,223,551	6,267,253
<b>OTHER CHANGES IN NET ASSETS</b>			
Net unrealized investment losses	(1,965)	(4,346)	(7,029)
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	53,479	(250,790)	(121,570)
Balance - beginning of year	53,541	304,331	425,901
<b>NET ASSETS AT END OF YEAR</b>	\$ 107,020	\$ 53,541	\$ 304,331

*The accompanying notes are an integral part of the financial statements.*

**HALE CENTRE THEATRE**  
**(A Non-Profit Organization)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2010, 2009, and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Change in net assets	\$ 53,479	\$ (250,790)	\$ (121,570)
Adjustments to reconcile change in net assets to net cash flows from operating activities:			
Depreciation	207,893	210,712	201,129
Loss (gain) on sale of assets	(4,695)	(8,782)	20,703
Amortization	916	918	-
(Increase) decrease in assets:			
Grants receivable	58,009	(240,963)	(32,238)
Contributions receivable	-	333,012	(6,220)
Other assets	(1,255)	(1,255)	(8,712)
Prepaid expenses	(51,675)	97,561	(463)
Increase (decrease) in liabilities:			
Accounts payable	28,212	(34,708)	3,980
Accrued expenses	19,767	7,921	(215,170)
Deferred compensation payable	111,384	128,593	(36,991)
Deferred revenue	11,781	260,248	295,774
Net cash flows from operating activities	<u>433,816</u>	<u>502,467</u>	<u>100,222</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash from disposal of equipment	-	12,000	-
Cash paid for purchases of property and equipment	(20,664)	(43,326)	(1,591,425)
Cash from sale of investments	-	-	473,819
Cash paid for purchase of investments	(115,379)	(131,086)	-
Net cash used by investing activities	<u>(136,043)</u>	<u>(162,412)</u>	<u>(1,117,606)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash paid to reduce long-term liabilities	(20,266)	(18,849)	(4,563)
Net cash used by financing activities	<u>(20,266)</u>	<u>(18,849)</u>	<u>(4,563)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	277,507	321,206	(1,021,947)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>500,009</u>	<u>178,803</u>	<u>1,200,750</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 777,516</u>	<u>\$ 500,009</u>	<u>\$ 178,803</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Property acquired through long term liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,257,000</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid for interest	<u>\$ 89,677</u>	<u>\$ 96,653</u>	<u>\$ 93,414</u>

*The accompanying notes are an integral part of the financial statements.*

**HALE CENTRE THEATRE**  
**(A Non-Profit Organization)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2010, 2009, and 2008**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hale Centre Theatre (HCT) conform to U.S. generally accepted accounting principles. The following policies are considered to be significant:

*Organization and Nature of Activities*

HCT, a non-profit organization, operates a community theater presenting performances of family oriented comedies and musicals to the public in West Valley City for the greater Salt Lake City area. In addition, the theater offers acting classes and instructional programs that teach the public about various aspects of community theater, such as lighting, sound, props, costuming, and acting. HCT also donates educational theater tours and performance tickets to various schools and other non-profit organizations. During 2008, HCT created a wholly owned subsidiary LLC which purchased the warehouse where HCT stores sets and other stage equipment.

*Principles of Consolidation*

The consolidated financial statements as of and for the year ended December 31, 2010 include the accounts of HCT and its 100% owned subsidiary Playstuff Storage, LLC. All inter-company accounts and transactions are eliminated upon consolidation.

*Basis of Accounting and Presentation*

The financial statements are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. HCT reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

*Public Support and Revenue*

Revenue from sales of tickets and other events is unrestricted to provide funding and services to support and foster an environment in which the arts can thrive. Ticket prices for performances, tuition for classes, and other fees are kept as low as possible to allow individuals and families of all income levels to participate. HCT has significant sales of tickets during the months of June through December when it sells "season tickets" for its upcoming year of performances. The season ticket sales are recorded as deferred revenue and recognized as revenue in the following year when the performances are given.

HCT also receives support in the form of donations from public and private sources. One government agency contributes over 10% of total revenue. The amount receivable from this government agency also comprises over 95% of total receivables. For a summary of the composition of contributions received please see Note 11.

**HALE CENTRE THEATRE**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2010, 2009, and 2008**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Public Support and Revenue (Continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash and Cash Equivalents

Cash equivalents are generally comprised of certain highly liquid investments with original maturities of three months or less.

Endowment Account

HCT maintains an endowment account in an effort to provide stability to the annual financial position. Management and patrons have the option of designating contributions for the endowment account. Funds are invested in marketable securities and liquidated according to the guidelines of HCT's endowment fund investment policy. Management has not determined these funds to be restricted as they are available for use at management's discretion.

Investments

HCT invests in marketable securities which are classified as current according to management's intent. The securities are carried at fair value with net unrealized gains or losses reported in other changes in net assets in the statement of activities.

Contributions Receivable

Contributions receivable represent promises to give, which have been made by donors but have not yet been received by HCT and are considered by management to be fully collectible in the following year. Accordingly, no allowance for doubtful accounts is considered necessary.

Property and Equipment

Property and equipment with a cost of more than \$1,000 are capitalized at cost or, if donated, at the fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Income Taxes

HCT is a non-profit organization exempt from federal income taxes in accordance with the provisions of Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes has been recorded in the accompanying financial statements.

**HALE CENTRE THEATRE**  
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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

All costs associated with advertising and promoting HCT's goods and services are expensed in the year incurred.

Donated Services and Facilities

HCT receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, program activities and special events. No amounts have been recognized in the statement of activities because the criteria for recognition have not been satisfied. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Concentrations of Credit Risk

HCT's financial instruments that are exposed to concentrations of credit risk consist primarily of cash deposited in financial institutions.

HCT maintains its cash balances at several financial institutions to minimize its risk of loss from failure of any one institution. At times such balances may exceed federally insured limits. HCT has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2008 and 2009 financial statements have been reclassified to conform to the 2010 presentation.

Subsequent Events

Management of HCT has evaluated subsequent events through March 23, 2011, which is also the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that required recognition or disclosure in these financial statements.

**HALE CENTRE THEATRE**  
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NOTE 2 - INVESTMENTS

Marketable securities have been classified in the statement of financial position according to management's intent. All securities in the endowment fund and HCT's other investment portfolio fall under Level 1 within the fair value hierarchy as they are stocks and their fair values are readily determinable. HCT does not have investments in mutual funds or debt securities. The aggregate fair value and unrealized gains and losses are as follows:

<u>Year</u>	<u>Market Value</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>
2010	\$ 22,926	\$ -	\$ 1,965
2009	\$ 18,931	\$ -	\$ 4,346
2008	\$ 16,438	\$ -	\$ 7,029

The reconciliation of the beginning and ending endowment fund balances is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Beginning Fair Value	\$ 11,023	\$ 9,670	\$ 10,192
Contributions	1,639	2,935	2,105
Investment Income	<u>221</u>	<u>273</u>	<u>321</u>
End Cost	12,883	12,878	12,618
Unrealized Loss	<u>(646)</u>	<u>(1,855)</u>	<u>(2,948)</u>
Ending Fair Value	<u>\$ 12,237</u>	<u>\$ 11,023</u>	<u>\$ 9,670</u>

**HALE CENTRE THEATRE**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2010, 2009 and 2008 are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cost:			
Land	\$ 295,333	\$ 295,333	\$ 295,333
Autos and trucks	87,200	87,200	115,106
Buildings and improvements	1,386,349	1,386,349	1,386,349
Theatre equipment	2,012,209	1,995,954	1,967,883
Furniture and fixtures	624,194	613,496	603,688
Leasehold improvements	<u>117,095</u>	<u>117,095</u>	<u>106,016</u>
	4,522,380	4,495,427	4,474,375
Less accumulated depreciation	<u>(1,308,320)</u>	<u>(1,101,343)</u>	<u>(909,687)</u>
Net book value	<u>\$ 3,214,060</u>	<u>\$ 3,394,084</u>	<u>\$3,564,688</u>

NOTE 4 - DEFERRED COMPENSATION PLAN

In a prior year, HCT established a non-qualifying deferred compensation plan for certain key members of management. The plan became fully funded during 2004. HCT incurred \$75,712, \$63,263, and \$59,808 of related expense in 2010, 2009, and 2008, respectively. The liability is shown on the statement of financial position as a long-term liability and is offset by the deferred compensation fund asset.

The plan is structured such that employees will receive their share of the balance upon retirement or severance from HCT. The funds are kept in a separate account from HCT and are recognized as an asset as the plan is funded.

NOTE 5 - RELATED PARTY TRANSACTIONS

During 2008, HCT purchased equipment from Red Rock Leasing LC, which is 50% owned by two officers of HCT. Previously, HCT had a five-year equipment lease agreement with Red Rock Leasing, LC, for the use of the sets, stage equipment, props, costumes, sound and lighting equipment, audiovisual equipment, computers, tables and chairs, a trailer, and warehousing of sets, props, and costumes. Under that lease agreement HCT paid rental expenses of \$33,000 for 2008. The rent was \$11,000 per month for the entire term of the lease.

**HALE CENTRE THEATRE**  
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NOTE 6 - LONG-TERM NOTE PAYABLE

The long-term note payable as of December 31, 2010, 2009, and 2008 is as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Variable rate based on TCM index - 7.170% at 12/31/10, promissory note to a bank, collateralized by building, due in monthly installments of \$9,106, matures August 15, 2018	\$ 1,213,322	\$ 1,233,588	\$1,252,437
Less current portion of long-term note payable	(23,245)	(21,641)	(20,148)
Long-term note payable excluding current portion	\$ 1,190,077	\$ 1,211,947	\$ 1,232,289

Aggregate annual maturities of the long-term note payable are as follows:

2011	\$ 23,245
2012	24,967
2013	26,817
2014	28,805
2015	30,939
Thereafter	1,078,549
	\$ 1,213,322

NOTE 7 - OPERATING LEASES

On April 1, 1998, HCT entered into a rental agreement with West Valley City, Utah (the City) to rent its facilities. The agreement expires on December 31, 2016 and has an option for renewal of one fourteen-year and two ten-year periods subsequent to the expiration of the original rental agreement. The lease has several clauses in which the City can change various aspects of the agreement subject to HCT's operations and income levels. In 2007, HCT renegotiated annual lease payments with the City.

**HALE CENTRE THEATRE**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2010, 2009, and 2008**

NOTE 7 - OPERATING LEASES (CONTINUED)

Based on the renegotiated terms of the lease, future minimum lease payments to be paid to the City are as follows:

2011	\$ 460,212
2012	505,792
2013	508,368
2014	504,920
2015	550,700
Thereafter	<u>533,152</u>
	<u>\$ 3,063,144</u>

Total rental expense under this agreement amounted to \$458,861, \$456,736, and \$411,291, for 2010, 2009, and 2008, respectively.

NOTE 8 - DEFERRED REVENUE

Ticket sales collected for the following year are treated as deferred revenue and classified as current liabilities in the statements of financial position. Such deferred revenue is recognized in the year in which the performances are given. Deferred revenue at December 31, 2010, 2009, and 2008 was \$2,776,464, \$2,764,683, and \$2,504,435, respectively.

NOTE 9 - EMPLOYEE BENEFITS

HCT has a 401(k) retirement plan. Employees who have one year of service and have attained age 21 are eligible to participate in the plan. Employees become fully vested in the plan after five years of service. HCT is required to contribute 3% of employees' compensation (less forfeitures). Retirement plan expense was \$45,414, \$45,206, and \$36,000, in 2010, 2009, and 2008, respectively. In addition, a discretionary contribution can be determined each year by HCT. No discretionary contributions were made in 2010, 2009, or 2008.

NOTE 10 - DONATED PERFORMANCE TICKETS

As discussed in Note 1, HCT's Community Outreach Program donates performance tickets to various schools and other non-profit organizations. HCT has donated approximately 12,700, 10,400, and 10,250, tickets valued at approximately \$278,000, \$215,000, and \$210,000, respectively, during 2010, 2009 and 2008.

**HALE CENTRE THEATRE**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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NOTE 11 - CONTRIBUTIONS

Contributions as of December 31, 2010, 2009, and 2008 were received from individuals, corporations, foundations, and government as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Individuals	\$ 196,472	\$ 186,529	\$ 182,398
Corporations	135,564	72,825	152,825
Foundations	160,200	67,933	95,500
Government	<u>823,543</u>	<u>731,829</u>	<u>1,058,407</u>
 Total unrestricted contributions	 <u>\$ 1,315,779</u>	 <u>\$ 1,059,116</u>	 <u>\$ 1,489,130</u>

NOTE 12 - ADVERTISING

Advertising expense as of December 31, 2010, 2009, and 2008 is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
In-kind contributions	\$ 28,800	\$ 44,000	\$ 10,000
Paid or accrued by HCT	<u>149,406</u>	<u>173,985</u>	<u>157,424</u>
 Total advertising	 <u>\$ 178,206</u>	 <u>\$ 217,985</u>	 <u>\$ 167,424</u>

NOTE 13- CONTINGENCIES

As opportunity permits, HCT issues trade vouchers with various vendors for the purpose of exchanging tickets for services needed by HCT. The obligation for the trade vouchers issued during 2010 is included on the balance sheet in deferred revenue. However, the amount of trade vouchers issued in prior years is not known and is not estimable. HCT has tracked all redeemed trade vouchers in prior years. Additionally, HCT issues complimentary tickets as an audience development mechanism. HCT does not consider a liability necessary for the complimentary tickets outstanding as HCT does not have an obligation to redeem the complimentary tickets and they cannot be exchanged for cash.