

HALE CENTRE THEATRE
(A Non-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008, 2007, and 2006

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

We have audited the accompanying consolidated statements of financial position of Hale Centre Theatre (a non-profit organization) as of December 31, 2008, 2007, and 2006, 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 Company'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, 2008, 2007, and 2006, 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.



Salt Lake City, Utah
March 10, 2009

HALE CENTRE THEATRE
(A Non-Profit Organization)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2008, 2007, and 2006

	2008	2007	2006
ASSETS			
CURRENT ASSETS			
Unrestricted cash and cash equivalents	\$ 185,571	\$ 1,664,527	\$ 1,567,194
Cash endowment account	9,670	10,192	-
Contributions receivable	338,012	299,554	345,824
Prepaid expenses	218,298	217,835	124,077
TOTAL CURRENT ASSETS	751,551	2,192,108	2,037,095
PROPERTY AND EQUIPMENT	3,564,688	917,392	715,907
OTHER ASSETS			
Loan costs	8,712	-	-
DEFERRED COMPENSATION TRUST FUNDS	133,784	170,775	269,752
TOTAL ASSETS	\$ 4,458,735	\$ 3,280,275	\$ 3,022,754
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 63,122	\$ 59,142	\$ 73,530
Accrued expenses	200,626	415,796	105,444
Deferred revenue	2,504,435	2,208,661	2,285,499
Current portion of long-term note payable	20,148	-	-
TOTAL CURRENT LIABILITIES	2,788,331	2,683,599	2,464,473
LONG-TERM NOTE PAYABLE	1,232,289	-	-
DEFERRED COMPENSATION PAYABLE	133,784	170,775	269,752
NET ASSETS			
Unrestricted	304,331	425,901	288,529
TOTAL NET ASSETS	304,331	425,901	288,529
TOTAL LIABILITIES AND NET ASSETS	\$ 4,458,735	\$ 3,280,275	\$ 3,022,754

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, 2008, 2007, and 2006

	2008	2007	2006
CHANGES IN UNRESTRICTED NET ASSETS			
REVENUES AND SUPPORT			
Admissions and processing fees	\$ 4,108,171	\$ 3,762,582	\$ 3,768,627
Contributions	1,489,130	1,404,075	1,285,472
In-kind donations	119,052	177,732	130,163
Concession and gift sales	185,639	155,861	154,927
Rental income	118,894	107,004	109,001
Acting class fees	73,658	76,196	82,912
Loss on sale of asset	(27,732)	-	-
Miscellaneous	66,899	57,924	35,397
Interest and investment income	11,972	53,603	37,507
TOTAL UNRESTRICTED REVENUE AND SUPPORT	6,145,683	5,794,977	5,604,006
EXPENDITURES			
Program services	3,034,159	2,537,712	2,475,878
Fundraising activities	417,421	326,825	230,188
Management and general	2,815,673	2,793,068	2,462,263
TOTAL EXPENDITURES	6,267,253	5,657,605	5,168,329
CHANGE IN UNRESTRICTED NET ASSETS	(121,570)	137,372	435,677
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-
CHANGE IN NET ASSETS	(121,570)	137,372	435,677
Balance (deficit) - beginning of year	425,901	288,529	(147,148)
NET ASSETS AT END OF YEAR	\$ 304,331	\$ 425,901	\$ 288,529

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, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ (121,570)	\$ 137,372	\$ 435,677
Adjustments to reconcile change in net assets to net cash flows from operating activities:			
Depreciation	201,129	165,112	130,274
(Increase) decrease in assets:			
Contributions receivable	(38,458)	46,270	(181,386)
Other assets	(8,712)	-	-
Prepaid expenses	(463)	(93,758)	(62,353)
Increase (decrease) in liabilities:			
Accounts payable	3,980	(14,388)	(47,003)
Accrued expenses	(215,170)	310,352	(1,789)
Deferred compensation payable	(36,991)	(98,977)	84,864
Deferred revenue	295,774	(76,838)	301,890
Net cash flows from operating activities	<u>79,519</u>	<u>375,145</u>	<u>660,174</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash paid for purchases of property and equipment	(1,591,425)	(366,597)	(154,272)
Cash from sale of investments	36,991	98,977	-
Cash paid for purchase of investments	-	-	(84,864)
Net cash used by investing activities	<u>(1,554,434)</u>	<u>(267,620)</u>	<u>(239,136)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash paid to reduce long-term liabilities	(4,563)	-	(2,381)
Net cash used by financing activities	<u>(4,563)</u>	<u>-</u>	<u>(2,381)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,479,478)	107,525	418,657
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,674,719</u>	<u>1,567,194</u>	<u>1,148,537</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 195,241</u>	<u>\$ 1,674,719</u>	<u>\$ 1,567,194</u>
Non-cash items:			
Property acquired through long term liabilities	<u>\$ 1,257,000</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 93,414</u>	<u>\$ -</u>	<u>\$ -</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, 2008, 2007, and 2006

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 the West Valley City and 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, 2008 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. 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.

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008, 2007, and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

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 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.

Advertising

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

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 2006 and 2007 financial statements have been reclassified to conform to the 2008 presentation.

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 under SFAS No. 116 have not been satisfied.

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008, 2007, and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and Facilities (continued)

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.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2008, 2007 and 2006 are detailed in the following summary:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cost:			
Autos and trucks	\$ 115,106	\$ 144,751	\$ 83,351
Buildings and improvements	1,386,349	-	-
Theatre equipment	1,967,883	939,827	727,215
Furniture and fixtures	603,688	532,282	439,697
Leasehold improvements	106,016	51,828	51,828
Land	295,333	-	-
	<u>4,474,375</u>	<u>1,668,688</u>	<u>1,302,091</u>
Less accumulated depreciation	<u>(909,687)</u>	<u>(751,296)</u>	<u>(586,184)</u>
Net book value	<u>\$ 3,564,688</u>	<u>\$ 917,392</u>	<u>\$ 715,907</u>

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008, 2007, and 2006

NOTE 3 - 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 \$59,808, \$65,200 and \$66,845 of related expense in 2008, 2007, and 2006, respectively. The liability is shown on the statement of financial position as a long-term note payable 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 4 - 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, \$132,000 and \$132,000 for each of the years 2008, 2007, and 2006. The rent was \$11,000 per month for the entire term of the lease.

NOTE 5 - LONG-TERM NOTE PAYABLE

The long-term note payable as of December 31, 2008, 2007, and 2006 is detailed in the following summary:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
7.170%, promissory note to bank, due in monthly installments of \$9,106, matures 8/15/2018	\$ 1,252,437	\$ -	\$ -
Less current portion of long-term note payable	<u>(20,148)</u>	<u>-</u>	<u>-</u>
Long-term note payable excluding current port	<u>\$ 1,232,289</u>	<u>\$ -</u>	<u>\$ -</u>

HALE CENTRE THEATRE
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008, 2007, and 2006

NOTE 5 - LONG-TERM NOTE PAYABLE (CONTINUED)

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

2009	\$ 20,148
2010	21,641
2011	23,245
2012	24,967
2013	26,817
Thereafter	<u>1,135,619</u>
	<u>\$ 1,252,437</u>

NOTE 6 - 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, 2020 and has an option for renewal of three 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.

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

2009	\$ 456,736
2010	458,861
2011	460,214
2012	505,794
2013	508,369
Thereafter	<u>1,793,015</u>
	<u>\$ 4,182,989</u>

Total rental expense under this agreement amounted to \$411,291, \$412,949, and \$409,698, for 2008, 2007, and 2006, respectively.

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008, 2007, and 2006

NOTE 7 - DEFERRED REVENUE

Season 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 income as the corresponding performances are given. Deferred revenue at December 31, 2008, 2007, and 2006 was \$2,504,435, \$2,208,661, and \$2,285,499, respectively.

NOTE 8 - 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 \$36,000, \$36,733, and \$26,344, in 2008, 2007, and 2006, respectively. In addition, a discretionary contribution can be determined each year by HCT. No discretionary contributions were made in 2008, 2007, or 2006.

NOTE 9 - 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 10,250, 10,600, and 9,100, tickets valued at \$210,000, \$191,300, and \$164,000, respectively, during 2008, 2007 and 2006.

NOTE 10 - CONTRIBUTIONS

Contributions as of December 31, 2008, 2007, and 2006 were received from individuals, corporations, foundations and government as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Individuals	\$ 182,398	\$ 164,541	\$ 174,630
Corporations	152,825	106,914	108,276
Foundations	95,500	93,550	114,000
Government	<u>1,058,407</u>	<u>1,039,070</u>	<u>888,566</u>
 Total unrestricted contributions	 <u>\$ 1,489,130</u>	 <u>\$ 1,404,075</u>	 <u>\$ 1,285,472</u>

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008, 2007, and 2006

NOTE 11 - ADVERTISING

Advertising expense as of December 31, 2008, 2007, and 2006 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
In-kind contributions	\$ 10,000	\$ 44,150	\$ 44,150
Paid or accrued by HCT	<u>157,424</u>	<u>153,625</u>	<u>122,166</u>
Total advertising	<u>\$ 167,424</u>	<u>\$ 197,775</u>	<u>\$ 166,316</u>