

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

FINANCIAL STATEMENTS

December 31, 2007, 2006, and 2005

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Hale Centre Theatre (a non-profit organization) as of December 31, 2007, 2006, and 2005, and the related 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 U.S. generally accepted auditing standards. 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, 2007, 2006, and 2005, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
March 26, 2008

HALE CENTRE THEATRE
(A Non-Profit Organization)
STATEMENTS OF FINANCIAL POSITION
December 31, 2007, 2006, and 2005

	2007	2006	2005
ASSETS			
CURRENT ASSETS			
Unrestricted cash and cash equivalents	\$ 1,674,719	\$ 1,567,194	\$ 1,148,537
Contributions receivable	299,554	345,824	164,438
Prepaid expenses	217,835	124,077	61,724
TOTAL CURRENT ASSETS	2,192,108	2,037,095	1,374,699
EQUIPMENT	917,392	715,907	691,909
DEFERRED COMPENSATION TRUST FUNDS	170,775	269,752	184,888
TOTAL ASSETS	\$ 3,280,275	\$ 3,022,754	\$ 2,251,496
 LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 59,142	\$ 73,530	\$ 120,533
Accrued expenses	415,796	105,444	107,233
Deferred revenue	2,208,661	2,285,499	1,983,609
Current portion of long-term note payable	-	-	2,381
TOTAL CURRENT LIABILITIES	2,683,599	2,464,473	2,213,756
DEFERRED COMPENSATION PAYABLE	170,775	269,752	184,888
NET ASSETS (DEFICIT)			
Unrestricted	425,901	288,529	(147,148)
TOTAL NET ASSETS (DEFICIT)	425,901	288,529	(147,148)
TOTAL LIABILITIES AND NET ASSETS	\$ 3,280,275	\$ 3,022,754	\$ 2,251,496

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

HALE CENTRE THEATRE
(A Non-Profit Organization)
STATEMENTS OF ACTIVITIES
Years ended December 31, 2007, 2006, and 2005

	2007	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS			
REVENUES AND SUPPORT			
Admissions and processing fees	\$ 3,762,582	\$ 3,768,627	\$ 3,403,066
Contributions	1,404,075	1,285,472	1,021,087
In-kind donations	177,732	130,163	130,043
Concession and gift sales	155,861	154,927	150,141
Rental income	107,004	109,001	70,450
Acting class fees	76,196	82,912	75,953
Miscellaneous	57,924	35,397	41,757
Interest and investment income	53,603	37,507	15,079
TOTAL UNRESTRICTED REVENUE AND SUPPORT	5,794,977	5,604,006	4,907,576
EXPENDITURES			
Program services	2,537,712	2,475,878	2,436,277
Fundraising activities	326,825	230,188	172,489
Management and general	2,793,068	2,462,263	2,203,309
TOTAL EXPENDITURES	5,657,605	5,168,329	4,812,075
INCREASE IN UNRESTRICTED NET ASSETS	137,372	435,677	95,501
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-
INCREASE IN NET ASSETS	137,372	435,677	95,501
Balance (deficit) - beginning of year	288,529	(147,148)	(242,649)
NET ASSETS (DEFICIT) AT END OF YEAR	\$ 425,901	\$ 288,529	\$ (147,148)

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

HALE CENTRE THEATRE
(A Non-Profit Organization)
STATEMENTS OF CASH FLOWS
Years ended December 31, 2007, 2006, and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets	\$ 137,372	\$ 435,677	\$ 95,501
Adjustments to reconcile increase in net assets to net cash flows from operating activities:			
Depreciation	165,112	130,274	115,976
(Increase) decrease in assets:			
Contributions receivable	46,270	(181,386)	(28,433)
Prepaid expenses	(93,758)	(62,353)	5,653
Increase (decrease) in liabilities:			
Accounts payable	(14,388)	(47,003)	47,565
Accrued expenses	310,352	(1,789)	2,236
Deferred compensation payable	(98,977)	84,864	71,790
Deferred revenue	(76,838)	301,890	188,289
Net cash flows from operating activities	<u>375,145</u>	<u>660,174</u>	<u>498,577</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash paid for purchases of equipment	(366,597)	(154,272)	(196,379)
Cash from sale of investments	98,977	-	-
Cash paid for purchase of investments	-	(84,864)	(66,845)
Net cash used by investing activities	<u>(267,620)</u>	<u>(239,136)</u>	<u>(263,224)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash paid to reduce long-term liabilities	-	(2,381)	(5,531)
Net cash used by financing activities	<u>-</u>	<u>(2,381)</u>	<u>(5,531)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	107,525	418,657	229,822
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,567,194</u>	<u>1,148,537</u>	<u>918,715</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,674,719</u>	<u>\$ 1,567,194</u>	<u>\$ 1,148,537</u>

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

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
December 31, 2007, 2006, and 2005

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.

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 July 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.

Cash and Cash Equivalents

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

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
December 31, 2007, 2006, and 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Equipment

Equipment is 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.

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.

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.

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
December 31, 2007, 2006, and 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 - EQUIPMENT

Equipment as of December 31, 2007, 2006 and 2005 is detailed in the following summary:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cost:			
Autos and trucks	\$ 144,751	\$ 83,351	\$ 55,445
Theatre equipment	939,827	727,215	663,615
Furniture and fixtures	532,282	439,697	376,930
Leasehold improvements	51,828	51,828	51,828
	<u>1,668,688</u>	<u>1,302,091</u>	<u>1,147,818</u>
Less accumulated depreciation	<u>(751,296)</u>	<u>(586,184)</u>	<u>(455,909)</u>
Net book value	<u>\$ 917,392</u>	<u>\$ 715,907</u>	<u>\$ 691,909</u>

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 \$65,200, \$66,845 and \$59,652 of related expense in 2007, 2006, and 2005, respectively. The liability is shown on the statement of financial position as a long-term note payable and is offset by the deferred compensation trust 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.

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
December 31, 2007, 2006, and 2005

NOTE 4 - RELATED PARTY TRANSACTIONS

On March 1, 2004, HCT renewed a five-year equipment lease agreement with Red Rock Leasing, LC, which is 50% owned by two officers of HCT, for the use of sets, stage equipment, props, costumes, sound and lighting equipment, audiovisual equipment, computers, tables and chairs, a trailer, and warehousing of sets, props, and costumes. HCT paid rental expenses of \$132,000 for each of the years 2007, 2006, and 2005. The rent is \$11,000 per month for the entire term of the lease. Future minimum lease payments are as follows:

2008	\$ 132,000
2009	22,000
Thereafter	<u>-</u>
	<u>\$ 154,000</u>

NOTE 5 - 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:

2008	\$ 411,291
2009	456,736
2010	458,861
2011	460,214
2012	505,794
Thereafter	<u>2,301,384</u>
	<u>\$ 4,594,280</u>

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
December 31, 2007, 2006, and 2005

NOTE 5 - OPERATING LEASES (CONTINUED)

Total rental expense under this agreement amounted to \$412,949, \$409,698, and \$389,791, for 2007, 2006, and 2005, respectively.

NOTE 6 - 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, 2007, 2006, and 2005 was \$2,208,661 \$2,285,499, and \$1,983,609, and respectively.

NOTE 7 - 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 \$36,733, \$26,344, and \$27,712, in 2007, 2006, and 2005, respectively. In addition, a discretionary contribution can be determined each year by HCT. No discretionary contributions were made in 2007, 2006, or 2005.

NOTE 8 - 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 10,600, 9,100, and 11,100, tickets valued at \$191,300, \$164,000, and \$194,000, respectively, during 2007, 2006 and 2005.

HALE CENTRE THEATRE
(A Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
December 31, 2007, 2006, and 2005

NOTE 9 - CONTRIBUTIONS

Contributions as of December 31, 2007, 2006, and 2005 were received from individuals, corporations, foundations and government as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Individuals	\$ 164,541	\$ 174,630	\$ 147,717
Corporations	106,914	108,276	88,483
Foundations	93,550	114,000	113,575
Government	<u>1,039,070</u>	<u>888,566</u>	<u>671,312</u>
Total unrestricted contributions	<u>\$ 1,404,075</u>	<u>\$ 1,285,472</u>	<u>\$ 1,021,087</u>

NOTE 10 - ADVERTISING

Advertising expense as of December 31, 2007, 2006, and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
In-kind contributions	\$ 44,150	\$ 44,150	\$ 44,390
Paid or accrued by HCT	<u>153,625</u>	<u>122,166</u>	<u>126,730</u>
Total advertising	<u>\$ 197,775</u>	<u>\$ 166,316</u>	<u>\$ 171,120</u>