

ASSOCIATION FOR THE COLONIAL THEATRE

FINANCIAL STATEMENTS

Years Ended August 31, 2019 and 2018

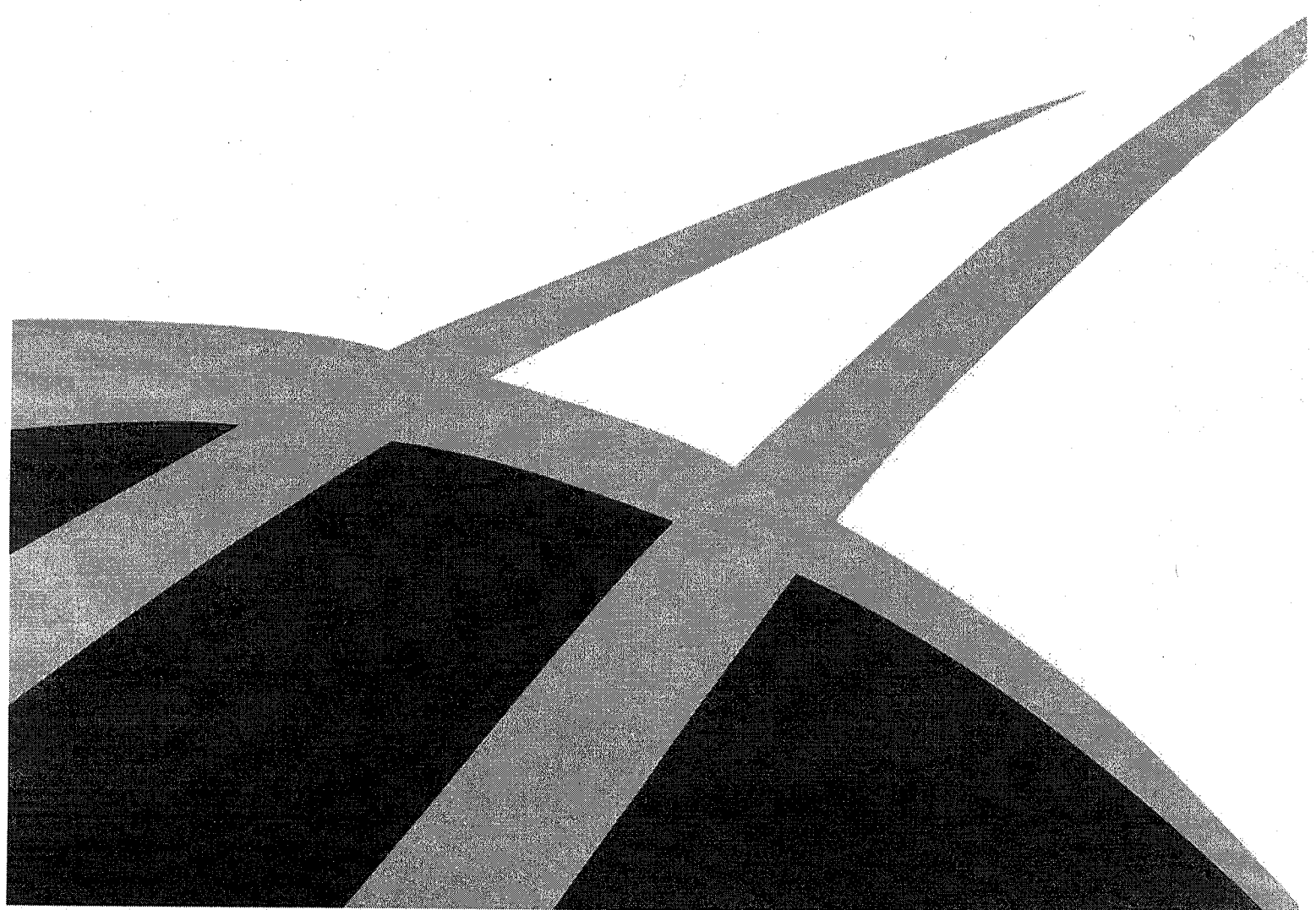


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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Association for the Colonial Theatre
Phoenixville, Pennsylvania**

We have audited the accompanying financial statements of Association for the Colonial Theatre (a nonprofit organization), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Association for the Colonial Theatre as of August 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, effective September 1, 2018, Association for the Colonial Theatre adopted FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Herbein + Company, Inc.

Reading, Pennsylvania
November 7, 2019

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF FINANCIAL POSITION

August 31

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 377,109	\$ 407,067
Current portion of pledges receivable	189,876	350,621
Accounts receivable	9,770	294
Prepaid expenses	42,503	8,080
Inventory	7,658	8,674
	<u>626,916</u>	<u>774,736</u>
TOTAL CURRENT ASSETS	626,916	774,736
PLEDGES RECEIVABLE, NET - LONG-TERM PORTION	75,669	226,828
LAND, BUILDINGS, AND EQUIPMENT		
Land	22,000	22,000
Buildings and improvements	8,434,177	8,434,177
Equipment	1,774,325	1,774,325
	<u>10,230,502</u>	<u>10,230,502</u>
Less: accumulated depreciation	<u>(1,731,415)</u>	<u>(1,358,922)</u>
NET LAND, BUILDINGS, AND EQUIPMENT	<u>8,499,087</u>	<u>8,871,580</u>
TOTAL ASSETS	<u>\$ 9,201,672</u>	<u>\$ 9,873,144</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 55,843	\$ 28,504
Accrued payroll and taxes	16,761	18,387
Deferred revenue	65,984	128,468
	<u>138,588</u>	<u>175,359</u>
TOTAL CURRENT LIABILITIES	138,588	175,359
NOTE PAYABLE	3,694,630	4,089,130
LONG-TERM DEBT	162,291	154,392
UNAMORTIZED DISCOUNT ON LOAN	87,709	95,608
	<u>4,083,218</u>	<u>4,514,489</u>
TOTAL LIABILITIES	4,083,218	4,514,489
NET ASSETS		
Without donor restrictions	4,852,909	4,781,206
With donor restrictions - time or purpose	265,545	577,449
	<u>5,118,454</u>	<u>5,358,655</u>
TOTAL NET ASSETS	5,118,454	5,358,655
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,201,672</u>	<u>\$ 9,873,144</u>

See accompanying notes.

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF ACTIVITIES

	August 31	
	2019	2018
WITHOUT DONOR RESTRICTIONS		
PUBLIC SUPPORT:		
Capital campaign contributions	\$ 217,125	\$ 191,070
Less: capital campaign expenses	-	(26,960)
Contributions	226,359	236,648
Grants	52,287	16,500
Special events, net of expenses of \$0 - 2019 and \$4,143 - 2018	-	9,297
	<u>495,771</u>	<u>426,555</u>
TOTAL PUBLIC SUPPORT	495,771	426,555
REVENUES:		
Admissions	886,556	837,494
Membership	123,455	117,819
Concessions	243,574	222,038
Rental	58,464	53,840
Interest income	2,208	950
Advertising	39,600	31,196
Processing and service fees	94,460	66,880
Net assets released from restrictions	311,904	378,941
	<u>2,255,992</u>	<u>2,135,713</u>
TOTAL PUBLIC SUPPORT AND REVENUES	2,255,992	2,135,713
EXPENSES		
Program services	1,963,076	1,925,695
Management and general	93,186	105,460
Fundraising	128,027	113,113
	<u>2,184,289</u>	<u>2,144,268</u>
TOTAL EXPENSES	2,184,289	2,144,268
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	71,703	(8,555)
WITH DONOR RESTRICTIONS		
Revenues:		
Net assets released from restrictions	(311,904)	(378,941)
	<u>(311,904)</u>	<u>(378,941)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(311,904)	(378,941)
CHANGE IN NET ASSETS	(240,201)	(387,496)
NET ASSETS AT BEGINNING OF YEAR	5,358,655	5,746,151
	<u>5,358,655</u>	<u>5,746,151</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,118,454</u>	<u>\$ 5,358,655</u>

See accompanying notes.

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended August 31, 2019				Year Ended August 31, 2018			
	Management and General		Fundraising		Management and General		Fundraising	
	Program Services	Totals	Program Services	Totals	Program Services	Totals	Program Services	Totals
Salaries and wages	\$ 289,668	\$ 60,264	\$ 90,423	\$ 440,355	\$ 315,534	\$ 60,354	\$ 64,971	\$ 440,85
Philanthropy taxes	25,806	5,369	8,056	39,231	27,124	5,188	5,585	37,89
Employee benefits	28,878	6,008	9,014	43,900	31,215	5,971	6,427	43,61
Employee costs	344,352	71,641	107,493	523,486	373,873	71,513	76,983	522,36
Advertising	43,533	-	3,800	47,333	45,144	-	-	45,14
Sign and promotion	-	-	-	-	-	-	28,620	28,62
Conferences	68,048	-	-	68,048	79,065	-	-	79,06
Conferences and meetings	2,949	-	-	2,949	18,330	-	-	18,33
Computer software	-	-	8,290	8,290	-	-	7,510	7,51
Insurance and licenses	4,935	-	-	4,935	1,259	-	-	1,25
Production costs	728,840	-	-	728,840	689,955	-	-	689,95
Office	20,540	-	-	20,540	29,860	-	-	29,86
Postage	253,703	-	-	253,703	203,364	-	-	203,36
Equipment and repairs	63,112	-	-	63,112	66,542	-	-	66,54
Membership and events	6,298	-	4,514	10,812	-	-	-	-
Postage and postage	2,817	6,895	3,183	12,895	-	19,059	-	19,05
Professional fees	3,605	11,226	747	15,578	-	14,888	-	14,88
Telephone	1,140	3,424	-	4,564	1,204	-	-	1,20
Telephone and internet	4,732	-	-	4,732	3,631	-	-	3,63
Depreciation	41,979	-	-	41,979	39,193	-	-	39,19
Travel	1,590,583	93,186	128,027	1,811,796	1,551,420	105,460	113,113	1,769,99
Communication	372,493	-	-	372,493	374,275	-	-	374,27
TOTAL FUNCTIONAL EXPENSES	\$ 1,963,076	\$ 93,186	\$ 128,027	\$ 2,184,289	\$ 1,925,695	\$ 105,460	\$ 113,113	\$ 2,144,26

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF CASH FLOWS

Year Ended August 31

2019 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (240,201)	\$ (387,496)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	372,493	374,275
Contributions restricted for long-term capital projects	(537,029)	(570,011)
Changes in:		
Pledges receivable	311,904	378,941
Accounts receivable	(9,476)	-
Prepaid expenses	(34,423)	(6,630)
Inventory	1,016	(2,543)
Accounts payable	27,339	3,408
Accrued payroll and taxes	(1,626)	2,559
Deferred revenue	(62,484)	53,586

NET CASH USED BY OPERATING ACTIVITIES	(172,487)	(153,911)
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of land, buildings, and equipment	-	(457,624)
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CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for capital projects	537,029	570,011
Advances (net of repayments) on note payable	(394,500)	138,895

NET CASH PROVIDED BY FINANCING ACTIVITIES	142,529	708,906
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(29,958)	97,371
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CASH AT BEGINNING OF YEAR	407,067	309,696
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CASH AT END OF YEAR	<u>\$ 377,109</u>	<u>\$ 407,067</u>
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ 253,703	\$ 203,364
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ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

Association for the Colonial Theatre (the "Association") is an organization whose mission is to enhance the collective well-being of the region by restoring the landmark Colonial Theatre and promoting cultural, economic, and civic life through the presentation of film, live theatre, music, dance, and other community events in the heart of Phoenixville's business district.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash

For the purpose of reporting the statements of cash flows, the Association considers money market funds to be cash equivalents in the operating fund. The Association places its cash in high credit quality institutions. At times, balances may exceed federally insured limits.

Inventory

Inventory consists of concession products and is stated at cost.

Land, Buildings, and Equipment

Expenditures for the acquisition of property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their fair market value.

Depreciation of building and equipment is computed by the straight-line method over useful lives of 40 years for building and 5 to 10 years for equipment.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations. Construction in progress is stated at cost and consists primarily of costs incurred in the construction of building improvements. No provision for depreciation is made on construction in progress until the assets are complete and placed into service.

Deferred Revenue

Any advance ticket sales sold prior to year end for events held in the following year are also deferred until the events are held, at which time they are also recognized as revenue.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets

The Association is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions - Net assets without donor restrictions include funds not subject to donor-imposed stipulations. In general, the revenues received, and expenses incurred in conducting the Association's charitable mission are included in this category.

Net Assets With Donor Restrictions - Net assets with donor restrictions include gifts, grants, and pledges whose use by the Association has been limited by donors to later periods of time or after specified dates, or to specified purposes.

The Association reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions.

See Note 4 for more information on the composition of net assets with donor restrictions or the release of donor restrictions.

Contributions

The Association recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as revenues without donor restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met.

Donated Services

Donated services are recognized as revenue (sponsorship and other revenue) in accordance with accounting standards if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association. Volunteers and board members also provide services to benefit the Association throughout the year that are not recognized as contributions in the financial statements since the criteria for recognition are not met.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional Expenses

As reported in the statement of functional expenses, expenses of the Association have been allocated to the following functional reporting classifications: Program Services, Management and General, and Fundraising.

Expenses directly attributable to a specific functional area are reported as expenses of those functions. The Association's method for allocating expenses among the functional reporting classifications which cannot be specifically identified as program or supporting service are based on estimates made for time spent by key personnel between functions, space occupied by function, consumption of supplies and postage by function, and other objective bases.

Advertising

The Association used advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. For the years ended August 31, 2019 and 2018, advertising costs totaled \$47,333 and \$45,144, respectively.

Tax-Exempt Status

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Association annually files federal and state information returns as required, including Form 990-T for any unrelated business activities. There is no current year provision for federal or state income taxes. In accordance with generally accepted accounting principles, the Association accounts for uncertain tax positions relative to unrelated business income, if any, as required.

Adoption of FASB ASU No. 2016-14

The Association adopted FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. Under the new ASU, the previously existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) is replaced with a model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used. The guidance for classifying deficiencies in endowment funds ("underwater endowments") and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Note 5 discloses the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use. This standard is effective for fiscal years beginning after December 15, 2017. The Association adopted this standard for the year ended August 31, 2019 with retroactive application for the year August 31, 2018.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates

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

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition through November 7, 2019, the date the financial statements were available to be issued. See Note 3 for details regarding the refinancing of debt subsequent to year end.

NOTE 2 - PLEDGES RECEIVABLE

The Association conducted a capital campaign in order to fund the purchase of the building at 225 Bridge Street. An additional capital campaign began to raise funds for the new building project design, construction, and an operating reserve. Contributions (pledges) are recorded when the donor makes a promise to give to the Association that is, in substance, unconditional and depending on the existence and/or nature of any donor restrictions. Management has evaluated the collectability of the pledges and determined that no allowance is necessary. The discount rate is derived by using the average of the borrowing rate on the note payable used to fund building renovations and the rate of interest earned on savings held by the Association.

Unconditional promises to give (pledges receivable) at August 31 are as follows:

	2019	2018
Receivable in less than one year	\$ 189,876	\$ 350,621
Receivable in one to five years	79,500	240,250
Total unconditional promises to give	269,376	590,871
Less: discounts to net present value (2.5%)	(3,831)	(13,422)
Net unconditional pledges receivable	<u>\$ 265,545</u>	<u>\$ 577,449</u>

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 3 - LONG-TERM DEBT

During the year ended August 31, 2016, the Association opened a secured note with Malvern Federal Bank in the amount of \$5,000,000 at an annual interest rate of the Wall Street prime rate as published in the Wall Street Journal on the applicable date plus .25% with a floor of 3.50% (5.50% and 5.25% at August 31, 2019 and 2018). The balance at August 31, 2019 and 2018 was \$3,694,630 and \$4,089,130, respectively. The note was utilized to pay off the debt with Customers Bank and provide funds for the building renovation as needed. The note is collateralized by the mortgage on the building and was extended until September 2019. Subsequent to year end in September 2019, the note was paid in full as noted in the debt refinancing disclosure.

Long-term debt obligations are summarized as follows at August 31:

	<u>2019</u>	<u>2018</u>
Note payable to the Borough of Phoenixville with monthly payments of \$1,389 beginning April 2021 for 15 years. The loan is noninterest-bearing and is secured by the property of the Association. The loan is reported net of the unamortized discount of \$87,709 and \$95,608 for the years ended August 31, 2019 and 2018, respectively. Total loan is in the amount of \$250,000 amortized with a 5.00% discount.	<u>\$ 162,291</u>	<u>\$ 154,392</u>

Maturities on long-term debt are as follows for the years ending August 31:

2021 - 2025	\$ 47,786
2026 - 2030	54,097
2031 - 2035	54,097
2036	<u>6,311</u>
	<u>\$ 162,291</u>

Total interest expense for the years ended August 31, 2019 and 2018 was \$253,703 and \$203,364, respectively.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 3 - LONG-TERM DEBT - CONTINUED

Debt Refinancing

Subsequent to year end in September 2019, the Association entered into a tax-free fixed rate note through Lower Salford Industrial Development Authority payable to a bank. The tax-free note was used to refinance the construction note. The note requires interest only payments beginning in October 2019 through September 2021 at a fixed rate of 3.8% for five years. Payments of principal and interest will begin in October 2021 in the amount of \$20,646. Final payment is due in September 2039. The note is secured by all real and personal property plus assignment of rents. The bank has a call option to declare the outstanding principal and interest due in full on each seventh anniversary of the loan modification commencing October 2028.

Maturities on this long-term debt based on refinancing terms are as follows for the years ending August 31:

2022	\$ 95,540
2023	107,877
2024	111,730
2025	116,489
2026	121,057
2027 - 2031	679,964
2032 - 2026	824,026
2037 - 2040	1,718,317
	<u>\$ 3,775,000</u>

NOTE 4 - NET ASSETS

Net assets with donor restrictions are comprised of the following as of August 31:

	2019	2018
Future periods:		
Capital improvements	<u>\$ 265,545</u>	<u>\$ 577,449</u>

Net assets were released from donor restrictions by satisfying the restricted purposes as follows at August 31:

	2019	2018
Capital improvements	<u>\$ 311,904</u>	<u>\$ 378,941</u>

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 5 - AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Association's financial assets as of August 31, 2019 and 2018, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions and financial liabilities due within one year. The Association's financial assets include cash, accounts receivables, and pledges receivables. The Association has restricted funds.

	2019	2018
Cash	\$ 377,109	\$ 407,067
Accounts receivable	9,770	294
Pledges receivable	265,545	577,449
Total financial assets available to meet cash needs for general expenses within one year	652,424	984,810
Less amounts not available due to contractual, board designated, or donor-imposed restrictions:		
Donor time and purpose restrictions	(265,545)	(577,449)
Financial assets available to meet cash needs for general expenses within one year	\$ 386,879	\$ 407,361

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 6 - 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)* and *Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date of ASU No. 2014-09 one year, making it effective for fiscal years beginning after December 15, 2018. The Association is evaluating the impact of this standard on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under this guidance, lessees will need to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. This standard is effective for fiscal years beginning after December 15, 2019, with early application permitted. The Association is evaluating the impact this standard will have on the financial statements.