

ASSOCIATION FOR THE COLONIAL THEATRE

FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017



TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 12



Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610
P: 610.378.1175
F: 610.378.0999
www.herbein.com

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, 2018 and 2017, 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, 2018 and 2017 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.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 13, 2018**

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF FINANCIAL POSITION

	August 31	
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 407,067	\$ 309,696
Current portion of pledges receivable	350,621	497,350
Other receivables	294	294
Prepaid expenses	8,080	1,450
Inventory	8,674	6,131
	<u>774,736</u>	<u>814,921</u>
TOTAL CURRENT ASSETS	774,736	814,921
PLEDGES RECEIVABLE, NET - LONG-TERM PORTION	226,828	459,040
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	(1,358,922)	(984,647)
	<u>8,871,580</u>	<u>9,245,855</u>
NET LAND, BUILDINGS, AND EQUIPMENT	8,871,580	9,245,855
	<u>\$ 9,873,144</u>	<u>\$ 10,519,816</u>
TOTAL ASSETS	\$ 9,873,144	\$ 10,519,816
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - regular	\$ 28,504	\$ 25,096
Accounts payable - construction	-	457,624
Payroll and taxes payable	18,387	15,828
Deferred revenue	128,468	74,882
Line of credit	4,089,130	3,950,235
	<u>4,264,489</u>	<u>4,523,665</u>
TOTAL CURRENT LIABILITIES	4,264,489	4,523,665
LONG-TERM DEBT	154,392	146,877
UNAMORTIZED DISCOUNT ON LOAN	95,608	103,123
	<u>4,514,489</u>	<u>4,773,665</u>
TOTAL LIABILITIES	4,514,489	4,773,665
NET ASSETS		
Unrestricted	4,781,206	4,789,761
Temporarily restricted	577,449	956,390
	<u>5,358,655</u>	<u>5,746,151</u>
TOTAL NET ASSETS	5,358,655	5,746,151
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,873,144</u>	<u>\$ 10,519,816</u>

See accompanying notes.

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF ACTIVITIES

	August 31	
	2018	2017
UNRESTRICTED NET ASSETS		
Revenues:		
Capital campaign contributions	\$ 191,070	\$ 443,286
Less: capital campaign expenses	(26,960)	(30,623)
Contributions	236,648	206,639
Grants	16,500	21,000
Admissions	797,261	457,661
Membership	117,819	89,978
Concessions	222,038	114,233
Rental	53,840	27,905
Special events, net of expenses of \$35,654 in 2018 and \$28,615 in 2017	18,019	29,705
Interest income	950	1,353
Advertising	31,196	15,998
Restoration and service fees	66,880	29,414
Net assets released from restrictions	378,941	835,890
Total revenues	<u>2,104,202</u>	<u>2,242,439</u>
Expenses:		
Program services	1,894,184	1,100,172
Management and general	105,460	98,669
Fundraising	113,113	100,464
Total expenses	<u>2,112,757</u>	<u>1,299,305</u>
CHANGE IN UNRESTRICTED NET ASSETS	(8,555)	943,134
TEMPORARILY RESTRICTED NET ASSETS		
Revenues:		
Net assets released from restrictions	<u>(378,941)</u>	<u>(835,890)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(378,941)</u>	<u>(835,890)</u>
CHANGE IN NET ASSETS	(387,496)	107,244
NET ASSETS AT BEGINNING OF YEAR	<u>5,746,151</u>	<u>5,638,907</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,358,655</u>	<u>\$ 5,746,151</u>

See accompanying notes.

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended August 31, 2018				Year Ended August 31, 2017			
	Program Services	Management and General	Fundraising	Totals	Program Services	Management and General	Fundraising	Totals
Salaries and wages	\$ 315,534	\$ 60,354	\$ 64,971	\$ 440,859	\$ 218,512	\$ 62,850	\$ 62,600	\$ 343,962
Payroll taxes	27,124	5,188	5,585	37,897	17,638	5,073	5,053	27,764
Employee benefits	31,215	5,971	6,427	43,613	23,864	6,864	6,837	37,565
Total employee costs	<u>373,873</u>	<u>71,513</u>	<u>76,983</u>	<u>522,369</u>	<u>260,014</u>	<u>74,787</u>	<u>74,490</u>	<u>409,291</u>
Advertising	45,144	-	-	45,144	36,150	-	-	36,150
Campaign and promotion	-	-	28,620	28,620	-	-	25,974	25,974
Concessions	79,065	-	-	79,065	32,718	-	-	32,718
Conferences and meetings	18,330	-	-	18,330	6,228	-	-	6,228
Donor software	-	-	7,510	7,510	-	-	-	-
Dues and licenses	1,259	-	-	1,259	2,564	-	-	2,564
Film and production costs	658,444	-	-	658,444	387,978	-	-	387,978
Insurance	29,860	-	-	29,860	48,246	-	-	48,246
Interest	203,364	-	-	203,364	58,760	-	-	58,760
Maintenance and repairs	66,542	-	-	66,542	55,527	-	-	55,527
Office and postage	-	19,059	-	19,059	-	15,776	-	15,776
Professional fees	-	14,888	-	14,888	-	8,106	-	8,106
Supplies	1,204	-	-	1,204	1,332	-	-	1,332
Telephone and internet	3,631	-	-	3,631	3,422	-	-	3,422
Utilities	39,193	-	-	39,193	33,357	-	-	33,357
	<u>1,519,909</u>	<u>105,460</u>	<u>113,113</u>	<u>1,738,482</u>	<u>926,296</u>	<u>98,669</u>	<u>100,464</u>	<u>1,125,429</u>
Depreciation	<u>374,275</u>	<u>-</u>	<u>-</u>	<u>374,275</u>	<u>173,876</u>	<u>-</u>	<u>-</u>	<u>173,876</u>
TOTAL FUNCTIONAL EXPENSES	<u><u>\$ 1,894,184</u></u>	<u><u>\$ 105,460</u></u>	<u><u>\$ 113,113</u></u>	<u><u>\$ 2,112,757</u></u>	<u><u>\$ 1,100,172</u></u>	<u><u>\$ 98,669</u></u>	<u><u>\$ 100,464</u></u>	<u><u>\$ 1,299,305</u></u>

See accompanying notes.

ASSOCIATION FOR THE COLONIAL THEATRE

STATEMENTS OF CASH FLOWS

	Year Ended August 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (387,496)	\$ 107,244
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	374,275	173,876
Contributions restricted for long-term capital projects	(570,011)	(919,518)
Changes in:		
Pledges receivable	378,941	476,232
Other receivables	-	1,305
Prepaid expenses	(6,630)	3,675
Inventory	(2,543)	(4,117)
Accounts payable	3,408	5,912
Payroll and taxes payable	2,559	6,506
Deferred revenue	53,586	42,608
	<u>(153,911)</u>	<u>(106,277)</u>
NET CASH USED BY OPERATING ACTIVITIES	(153,911)	(106,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings, and equipment	(457,624)	(5,245,479)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for capital projects	570,011	919,518
Advances (net of repayments) on line of credit	138,895	3,898,198
	<u>708,906</u>	<u>4,817,716</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	708,906	4,817,716
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,371	(534,040)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>309,696</u>	<u>843,736</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 407,067</u></u>	<u><u>\$ 309,696</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 203,364	\$ 58,760

See accompanying notes.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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.

Basis of Presentation

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

The Association accounts for contributions as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the contributor for future use or specific purposes. When a restriction expires (i.e., when a stipulated time restriction ends or purpose is accomplished), restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restriction. If a restriction is met in the same period as which the contribution is received, the Association reports the support as unrestricted.

Deferred Revenue

The Association records grant awards accounted for as exchange transactions and records as deferred revenue until related services are performed, at which time the awards are recognized as revenue. In addition, 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.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated between programs and supporting services benefited based on time spent and/or services performed. All program expenses relate to enhancing the theatre and arts programs; therefore, no allocation among program expenses is necessary.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Cash and Cash Equivalents

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.

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.

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, 2018 and 2017, advertising costs totaled \$45,144 and \$36,150, respectively.

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 13, 2018, the date the financial statements were available to be issued.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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 line of credit used to fund building renovations and the rate of interest earned on savings held by the organization.

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

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 350,621	\$ 497,350
Receivable in one to five years	<u>240,250</u>	<u>490,000</u>
Total unconditional promises to give	590,871	987,350
Less: discounts to net present value (2.5%)	<u>(13,422)</u>	<u>(30,960)</u>
Net unconditional pledges receivable	<u><u>\$ 577,449</u></u>	<u><u>\$ 956,390</u></u>

NOTE 3 - INCOME TAX 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.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

NOTE 4 - LINE OF CREDIT AND LONG-TERM DEBT

During the year ended August 31, 2016, the Association opened a secured line of credit 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% (5.25% and 4.50% at August 31, 2018 and 2017). The balance at August 31, 2018 and 2017 was \$4,089,130 and \$3,950,235, respectively. The line of credit was utilized to pay off the debt with Customers Bank and provide funds for the building renovation as needed. The line of credit is collateralized by the mortgage on the building and is required to be paid in full by June 10, 2019.

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

	<u>2018</u>	<u>2017</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 \$95,608 and \$103,123 for the years ended August 31, 2018 and 2017, respectively. Total loan is in the amount of \$250,000 amortized with a 5.00% discount.	<u>\$ 154,392</u>	<u>\$ 146,877</u>

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

2021 - 2025	\$ 45,460
2026 - 2030	51,464
2031 - 2035	51,464
2036	<u>6,004</u>
	<u>\$ 154,392</u>

Total interest expense for the years ended August 31, 2018 and 2017 was \$203,364 and \$58,760, respectively.

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Capital improvements	<u>\$ 577,449</u>	<u>\$ 956,390</u>

Net assets released from restrictions by satisfying the restricted purposes for the years ended August 31 are as follows:

	<u>2018</u>	<u>2017</u>
Capital improvements	<u>\$ 378,941</u>	<u>\$ 835,890</u>

NOTE 6 - SPECIAL EVENTS - REVENUES/EXPENSES

Amounts reported in the statements of activities as special events, net are as follows for the years ended August 30:

	<u>2018</u>		
	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>
Blobfest	\$ 40,233	\$ 31,511	\$ 8,722
Whiskey Tasting	13,440	4,143	9,297
	<u>\$ 53,673</u>	<u>\$ 35,654</u>	<u>\$ 18,019</u>
	<u>2017</u>		
	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>
Blobfest	\$ 45,370	\$ 25,290	\$ 20,080
Whiskey Tasting	12,950	3,325	9,625
	<u>\$ 58,320</u>	<u>\$ 28,615</u>	<u>\$ 29,705</u>

ASSOCIATION FOR THE COLONIAL THEATRE

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

NOTE 7 - 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.

In August 2016, the FASB issued 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 existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) will be 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 will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Entities will be required to disclose (on the face of the statement or in notes) 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, with early application permitted. This standard should be applied on a retrospective basis in the year that the standard is first applied. The Association is evaluating the impact of this standard on the financial statements.