

EISNERAMPER

PHILADELPHIA FILM SOCIETY

FINANCIAL STATEMENTS

JANUARY 1, 2017 TO JUNE 30, 2017



PHILADELPHIA FILM SOCIETY

Contents

	<u>Page</u>
Independent Accountants' Review Report	1
Financial Statements	
Statement of financial position as of June 30, 2017	2
Statement of activities and changes in net assets for the period from January 1, 2017 to June 30, 2017	3
Statement of cash flows for the period from January 1, 2017 to June 30, 2017	4
Notes to financial statements	5

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of
Philadelphia Film Society

We have reviewed the accompanying financial statements of Philadelphia Film Society, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the period from January 1, 2017 to June 30, 2017, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note B[11] to the financial statements, Philadelphia Film Society's recent financial performance shows a decrease in net assets for the period from January 1, 2017 to June 30, 2017. In addition, Philadelphia Film Society's current liabilities exceed its current assets as of June 30, 2017. Management's evaluation of the events and conditions and management's plans in regard to these matters are also described in Note B[11]. Our conclusion is not modified with respect to this matter.



EISNERAMPER LLP
Philadelphia, Pennsylvania
November 14, 2018



PHILADELPHIA FILM SOCIETY

Statement of Financial Position June 30, 2017

ASSETS

Current assets:

Cash	\$ 188,384
Accounts receivable	56,803
Contributions receivable	53,218
Prepaid expenses	23,707
Restricted cash	<u>134,889</u>

Total current assets 457,001

Property and equipment, net of accumulated depreciation 7,396,270

Other assets:

Deposits	<u>750</u>
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\$ 7,854,021

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$ 334,171
Due to related party	5,933
Current portion of long-term debt	85,858
Current portion of capital lease obligation	5,104
Line-of-credit	1,500,000
Ticket sales collected on behalf of others	<u>134,889</u>

Total current liabilities 2,065,955

Long-term debt, net of current portion 575,934

Capital lease obligation, net of current portion 12,286

Total liabilities 2,654,175

NET ASSETS

Unrestricted 5,199,846

\$ 7,854,021

PHILADELPHIA FILM SOCIETY

**Statement of Activities and Changes in Net Assets
January 1, 2017 to June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Contributions	\$ 421,761	\$ -	\$ 421,761
Ticket sales	415,707	-	415,707
Rental income	251,270	-	251,270
Membership dues	76,879	-	76,879
Labor fees	12,457	-	12,457
Concession sales	116,132	-	116,132
Other income	129,519	-	129,519
Net assets released from restrictions	162,500	(162,500)	-
	<u>1,586,225</u>	<u>(162,500)</u>	<u>1,423,725</u>
Expenses:			
Program services	1,498,667	-	1,498,667
Supporting services:			
General and administrative	478,438	-	478,438
Fundraising	99,227	-	99,227
	<u>2,076,332</u>	<u>-</u>	<u>2,076,332</u>
Change in net assets	(490,107)	(162,500)	(652,607)
Net assets at beginning of period	<u>5,689,953</u>	<u>162,500</u>	<u>5,852,453</u>
Net assets at end of period	<u>\$ 5,199,846</u>	<u>\$ -</u>	<u>\$ 5,199,846</u>

PHILADELPHIA FILM SOCIETY

Statement of Cash Flows

January 1, 2017 to June 30, 2017

Cash flows from operating activities:

Change in net assets	\$ (652,607)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	573,970
(Increase) decrease in assets:	
Accounts receivable	18,822
Contributions receivable	203,377
Prepaid expenses	(3,817)
Restricted cash	92,969
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(58,564)
Due to related party	1,221
Ticket sales collected on behalf of others	(92,969)
Net cash provided by operating activities	<u>82,402</u>

Cash flows from investing activities:

Purchases of property and equipment	<u>(22,548)</u>
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Cash flows from financing activities:

Net borrowings under line-of-credit agreements	90,496
Principal repayments of capital lease obligation	(2,532)
Principal repayments of long-term debt	<u>(32,350)</u>
Net cash provided by financing activities	<u>55,614</u>

Net increase in cash

115,468

Cash at beginning of period

72,916

Cash at end of period

\$ 188,384

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	<u>\$ 61,504</u>
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Supplemental disclosure of noncash investing and financing activities:

Loan proceeds used to purchase equipment	<u><u>\$ 122,769</u></u>
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PHILADELPHIA FILM SOCIETY

Notes to Financial Statements June 30, 2017

NOTE A - ORGANIZATION AND NATURE OF OPERATIONS

Philadelphia Film Society (the "Society"), formed on August 1, 2001 and located in Philadelphia, Pennsylvania, is a nonprofit organization that is the Philadelphia region's foremost resource for film presentation and education, serving as a vital member of the arts and culture community. The Society creates opportunities for diverse communities to experience film through initiatives that inspire, educate, challenge and entertain. It is committed to presenting film as a powerful medium for artistic expression, transformative force and catalyst for strengthening community. As the producer of the Philadelphia Film Festival and creative force behind the Roxy and Prince Music Theaters, the Society raises awareness of film as an important art form in Philadelphia.

The Society acquired the Prince Music Theater facility, a historic theater located in Philadelphia's art district, in 2015 using the proceeds from a generous contribution from the Wyncote Foundation. The acquisition of the Prince Music Theater has significantly expanded the operations of the Society, enabling it to host live arts and additional major film events. The Prince Music Theater is also home to Philadelphia's largest movie screen.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Reporting period:

In 2017, the Society changed its year-end from December 31 to June 30. These financial statements are presented as of June 30, 2017 and for the period from January 1, 2017 to June 30, 2017.

[2] Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

[3] Classification of net assets:

Resources in the financial statements are classified for accounting and reporting purposes in classes of net assets according to the existence or absence of donor-imposed restrictions. The accompanying financial statements may include the following classes of net assets:

- ***Unrestricted***

Unrestricted net assets are used to account for funds which have not been restricted by donors.

- ***Temporarily Restricted***

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

- ***Permanently Restricted***

Permanently restricted net assets represent those resources subject to donor-imposed stipulations that the corpus be invested in perpetuity and that only the investment income be made available for operations in accordance with donor restrictions. There were no permanently restricted net assets as of June 30, 2017.

PHILADELPHIA FILM SOCIETY

Notes to Financial Statements June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Restricted cash and ticket sales collected on behalf of others:

The Society collects cash from ticket sales on behalf of clients who rent out the Prince Music Theater. This cash is maintained in a separate bank account for the benefit of these clients. Accordingly, these funds are classified as restricted cash with a corresponding liability, ticket sales collected on behalf of others, on the statement of financial position.

[5] Property and equipment and depreciation:

Property and equipment are stated at cost, if purchased, or at fair value at the date of donation, if donated, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are generally five years for furniture and equipment, 30 years for leasehold improvements and 39 years for building. It is the Society's policy to capitalize property and equipment with a cost of \$1,000 or more (see Note D).

[6] Revenue recognition and accounts receivable:

Contributions, including unconditional promises to give, are recorded when received as unrestricted revenue or temporarily restricted net assets depending on the absence or existence of any donor restrictions. Conditional promises to give are not included as revenue until the conditions are substantially met.

In-kind contributions are recorded at their estimated fair values in the period received. Donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. There were no in-kind contributions received during the period from January 1, 2017 to June 30, 2017.

Ticket sale revenue is recognized when the related movie is shown or the event takes place.

Rental income primarily consists of charges for rents in connection with the use of the Prince Music Theater and the Roxy Theater. This revenue is recognized once the event takes place.

Membership dues are recognized over the term of the membership.

Labor fees are recognized when the services are performed.

Concession sales are recognized at the time of sale.

Other income primarily consists of fees associated with ticket purchases, which are recognized at the time of sale.

Accounts receivable are periodically reviewed by management for collectability. Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when they are deemed uncollectible. Management has determined that an allowance is not deemed necessary as of June 30, 2017.

[7] Functional allocation of expenses:

The costs of providing the programs and activities have been summarized on a functional basis on the accompanying statement of activities and changes in net assets. Accordingly, certain costs have been allocated among program services and supporting services in reasonable ratios determined by management.

PHILADELPHIA FILM SOCIETY

Notes to Financial Statements June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Federal tax status:

The Society is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is not subject to income tax, except on unrelated business income. The Society had no unrelated business income for the period from January 1, 2017 to June 30, 2017. U.S. GAAP requires management to evaluate tax positions taken and recognize a tax liability, if the organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by a government authority. Management has analyzed the tax positions taken by the Society and has concluded that as of June 30, 2017 there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Society recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of general and administrative expenses. There were no income tax related interest and penalties recorded for the period from January 1, 2017 to June 30, 2017.

[9] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of 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.

[10] New accounting pronouncements:

In February 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The core principle of ASU 2016-02 is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the statement of financial position and disclosing key information. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2019 (which will be the year beginning on July 1, 2020 for the Society), with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements and related disclosures.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: a) net asset classes, b) investment return, c) expenses, d) liquidity and availability of resources, and e) presentation of operating cash flows. The new standard will be effective for fiscal years beginning after December 15, 2017 (which will be the year beginning on July 1, 2018 for the Society). The adoption of ASU 2016-14 will require reclassification of net asset classes, the presentation of a statement of functional expenses, and additional disclosures related to liquidity and availability of resources.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance concerning 1) evaluating whether a transaction should be accounted for as an exchange transaction or as a contribution, and 2) determining whether a contribution received is conditional. ASU 2018-08 is effective for annual periods beginning after December 15, 2018 for entities that are resource recipients and for annual periods beginning after December 15, 2019 for entities that are resource providers, with early adoption permitted. ASU 2018-08 should be applied on a modified prospective basis. The Society is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

PHILADELPHIA FILM SOCIETY

Notes to Financial Statements June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Liquidity:

As indicated in the accompanying financial statements, the Society showed a decrease in net assets of \$652,607 during the period from January 1, 2017 to June 30, 2017. As of June 30, 2017, the Society's current liabilities exceeded its current assets by \$1,608,954, primarily due to the outstanding balance on its line-of-credit.

On May 9, 2018, the Society entered into a \$2.5 million mortgage loan agreement with Centric Bank. The proceeds of the mortgage were used to pay off the outstanding line-of-credit balance. With the remaining proceeds, income from operations and fundraising efforts, management of the Society believes that it currently has sufficient cash to meet its funding requirements through November 14, 2019.

NOTE C - CONTRIBUTIONS RECEIVABLE

The Society has received contributions, all of which are scheduled to be collected within one year as of June 30, 2017. All contributions receivable are expected to be collected in full.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2017 consists of the following:

Furniture and equipment	\$ 2,685,155
Building and improvements	4,299,760
Land	1,600,000
Leasehold improvements	<u>626,432</u>
	9,211,347
Less accumulated depreciation	<u>1,815,077</u>
	<u><u>\$ 7,396,270</u></u>

Depreciation on property and equipment for the period from January 1, 2017 to June 30, 2017 amounted to \$573,970.

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2017 and in the opinion of management, there was no impairment. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

NOTE E - LINE-OF-CREDIT

The Society has an available line-of-credit with Univest Bank, with available borrowings up to \$1,500,000. This line-of-credit bears interest at 4.75% and is collateralized by the Prince Music Theater. There was \$1,500,000 outstanding on the line-of-credit as of June 30, 2017. Interest expense was \$41,626 for the period from January 1, 2017 to June 30, 2017.

PHILADELPHIA FILM SOCIETY

Notes to Financial Statements June 30, 2017

NOTE F - LONG-TERM DEBT

Long-term debt as of June 30, 2017 consists of the following:

Mortgage note payable to bank in monthly installments of \$3,068, including interest at 8.888% with a final payment due in June 2018; note is secured by equipment	\$ 32,293
Mortgage note payable to the landlord of the Roxy Theater in monthly installments of \$5,148, including interest at 6% with a final payment due in October 2028; note is secured by the building improvements made	507,134
Loan payable to bank in monthly installments of \$2,431, including interest at 6.48% with a final payment due in May 2022; note is secured by equipment	<u>122,365</u>
	661,792
Less current portion of debt	<u>85,858</u>
	<u><u>\$ 575,934</u></u>

Scheduled maturities of long-term debt as of June 30, 2017 are as follows:

<u>Year Ending June 30</u>	
2018	\$ 85,858
2019	57,104
2020	60,880
2021	64,905
2022	68,196
Thereafter	<u>324,849</u>
	<u><u>\$ 661,792</u></u>

Interest expense associated with long-term debt was \$18,584 for the period from January 1, 2017 to June 30, 2017.

NOTE G - CONCENTRATION OF CREDIT RISK

The Society maintains its cash at several financial institutions. At times, such deposits may exceed federally insured limits. Management does not believe the cash is subject to undue risk when balances are in excess of federally insured limits.

PHILADELPHIA FILM SOCIETY

Notes to Financial Statements June 30, 2017

NOTE H - COMMITMENTS

The Society entered into an agreement to lease the Roxy Theater located on Sansom Street in Philadelphia, Pennsylvania, which expires on December 31, 2018. Rent is made up of two components. Base rent is a set amount that is stated in the terms of the lease. Additional rent is an amount calculated by the landlord which includes all taxes related to the property. There are options to extend the lease for two additional periods of five years each. The Society is required to pay utilities, insurance, real estate taxes and maintenance on the theater.

Scheduled future minimum rental commitments under the noncancelable lease agreement as of June 30, 2017 are as follows:

<u>Year Ending June 30</u>	
2018	\$ 106,740
2019	<u>53,370</u>
	<u>\$ 160,110</u>

Rent expense associated with this lease amounted to \$53,370 for the period from January 1, 2017 to June 30, 2017.

NOTE I - CAPITAL LEASE OBLIGATION

The Society leases equipment under a capital lease which expires in April 2020 and bears interest at approximately 13.4%. Future minimum lease payments as of June 30, 2017 are as follows:

<u>Year Ending June 30</u>	
2018	\$ 7,596
2019	7,596
2020	<u>5,697</u>
Total minimum lease payments	20,889
Less amounts representing interest	<u>3,499</u>
	17,390
Less current portion	<u>5,104</u>
	<u>\$ 12,286</u>

Leased property under a capital lease as of June 30, 2017 includes:

Furniture and equipment	\$ 23,400
Less accumulated depreciation	<u>4,680</u>
	<u>\$ 18,720</u>

Depreciation expense for assets under capital leases amounted to \$2,340 for the period from January 1, 2017 to June 30, 2017. Interest expense under the capital lease obligation amounted to \$1,294 for the period from January 1, 2017 to June 30, 2017.

PHILADELPHIA FILM SOCIETY

Notes to Financial Statements June 30, 2017

NOTE J - RELATED PARTY TRANSACTIONS

The Society incurred fees of \$43,644 for the period from January 1, 2017 to June 30, 2017 from an insurance company in which a Board member of the Society holds a management position. The amount due to this insurance company was \$5,933 as of June 30, 2017, and is included in due to related party on the statement of financial position.

NOTE K - SUBSEQUENT EVENTS

The Society has evaluated subsequent events through November 14, 2018, which is the date the financial statements were available to be issued.

On May 9, 2018, the Society entered into a mortgage loan agreement with Centric Bank, whereby Centric Bank agreed to lend the Society a principal sum of \$2,500,000, bearing interest at a rate of 5.25% over a 20-year term, with an option for Centric Bank to call the loan every five years. Beginning on June 10, 2018, twelve monthly installments of interest only are due. Beginning on June 10, 2019, monthly installments of principal and interest totaling \$15,400 are due through May 10, 2023, at which time, Centric Bank has the option to call the loan and demand payment of all outstanding principal and interest. If the loan is not called at this time, a new monthly installment amount shall be determined by Centric Bank. The loan is secured by a first lien on the property of the Society and is subject to certain covenants. The loan proceeds were used to pay off the outstanding line-of-credit balance discussed in Note E and the remaining proceeds from the loan will be used to fund capital improvements, working capital and capital reserve.

In October 2018, the Society renamed the Prince Music Theater to the Philadelphia Film Center.