

PHAMALY THEATRE COMPANY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

PHAMALY THEATRE COMPANY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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Taylor, Roth and Company, PLLC
Certified Public Accountants
working exclusively with nonprofit organizations

May 27, 2020

INDEPENDENT AUDITORS' REPORT

Board of Directors
Phamaly Theatre Company
Denver, Colorado

We have audited the accompanying financial statements of **Phamaly Theatre Company** (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 of 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 auditors' 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 above present fairly, in all material respects, the financial position of Phamaly Theatre Company as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited Phamaly Theatre Company's 2018 financial statements and we expressed an unmodified opinion in our report dated June 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial information from which it has been derived.

Taylor Roth and Company PLLC
TAYLOR, ROTH AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
Denver, Colorado

PHAMALY THEATRE COMPANY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
<u>Assets</u>		
Cash and cash equivalents	\$ 485,382	\$ 294,418
Grants receivable - multi-year (Note 3)	140,000	30,000
Prepaid expenses (Note 4)	69,781	1,987
Net property and equipment (Note 5)	30,963	37,105
Beneficial interest in assets held by others (Note 6)	90,934	82,275
	\$ 817,060	\$ 445,785
<u>Liabilities and net assets</u>		
<u>Liabilities</u>		
Accounts payable	2,513	1,086
Accrued payroll costs	18,908	21,937
Deferred revenue	2,920	4,250
Capital lease obligations (Note 7)	12,022	19,040
	36,363	46,313
<u>Net assets</u>		
<u>Without donor restrictions</u>		
Undesignated	614,322	217,252
Net investment in fixed assets	18,941	18,065
	633,263	235,317
<u>With donor restrictions (Note 8)</u>	147,434	164,155
Total net assets	780,697	399,472
Total liabilities and net assets	\$ 817,060	\$ 445,785

The accompanying notes are an integral part of these financial statements

PHAMALY THEATRE COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018	
	Without Donor Restrictions	With Donor Restrictions		Total	Total
	Undesignated	Donor Specific			
		Purpose	Endowment		
Revenue and other support					
Foundations	\$ 460,810	\$ 87,000	\$ -	\$ 547,810	\$ 186,725
Program fees	183,904	-	-	183,904	153,270
SCFD	115,954	-	-	115,954	116,317
Contributions	88,528	-	-	88,528	81,169
Special events income	74,627	-	-	74,627	74,791
Less direct special events expense	(28,349)	-	-	(28,349)	(16,007)
Government grants	13,388	25,000	-	38,388	26,750
Corporate support	13,295	6,500	-	19,795	18,804
Investment income (Net of fees)	93	-	12,963	13,056	(5,269)
Other revenue	5,171	-	-	5,171	6,510
In-kind contributions (Note 10)	25,000	-	-	25,000	26,130
Net assets released from restrictions (Note 11)	148,184	(143,880)	(4,304)	-	-
Total revenue and other support	1,100,605	(25,380)	8,659	1,083,884	669,190
Expense					
Program services	573,890	-	-	573,890	503,201
Supporting services					
Management and general	88,321	-	-	88,321	107,390
Fund-raising	40,448	-	-	40,448	37,627
Total expense	702,659	-	-	702,659	648,218
Change in net assets	397,946	(25,380)	8,659	381,225	20,972
Net assets, beginning of year	235,317	81,880	82,275	399,472	378,500
Net assets, end of year	\$ 633,263	\$ 56,500	\$ 90,934	\$ 780,697	\$ 399,472

The accompanying notes are an integral part of these financial statements

PHAMALY THEATRE COMPANY

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019				2018
	Program	Supporting Services			Total
		Management and General	Fund- raising	Total	
Salaries	\$ 179,704	\$ 49,539	\$ 26,260	\$ 255,503	\$ 228,964
Payroll taxes and benefits	26,162	7,212	3,823	37,197	37,847
Production staff	96,265	-	-	96,265	77,049
Facilities	90,318	-	-	90,318	66,707
Actor stipends	43,974	-	-	43,974	29,961
Advertising and promotion	40,840	-	-	40,840	53,724
Performance rights and royalties	23,510	-	-	23,510	23,458
Staging expenses	18,820	-	-	18,820	22,744
Audit and accounting services	-	14,747	-	14,747	16,474
Rent	-	12,000	-	12,000	11,000
Technology	7,526	2,075	1,100	10,701	6,843
Grant writing	-	-	9,265	9,265	-
Insurance	7,879	-	-	7,879	10,680
Dues	5,877	-	-	5,877	575
Accessibility	4,893	-	-	4,893	8,178
Bank charges	4,735	-	-	4,735	1,025
Office supplies	3,095	-	-	3,095	5,671
Printing	2,286	-	-	2,286	-
Staff development	2,127	-	-	2,127	1,658
Board	2,000	-	-	2,000	3,079
Postage and shipping	1,917	-	-	1,917	495
Storage facility and utilities	-	1,706	-	1,706	896
Mileage and parking	1,345	-	-	1,345	23,301
Interest	-	1,042	-	1,042	486
Loss on disposal of fixed asset	-	-	-	-	10,120
Miscellaneous	2,666	-	-	2,666	1,651
	565,939	88,321	40,448	694,708	642,586
Depreciation	7,951	-	-	7,951	5,632
Total expenses	\$ 573,890	\$ 88,321	\$ 40,448	\$ 702,659	\$ 648,218

The accompanying notes are an integral part of these financial statements

PHAMALY THEATRE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	<u>2019</u>	<u>2018</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 381,225	\$ 20,972
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	7,951	5,632
(Gain) loss on endowment	(11,835)	18,333
Loss on disposal of fixed asset	-	10,120
<u>Changes in operating assets and liabilities</u>		
(Increase)decrease in accounts and grants receivable	(110,000)	40,000
(Increase)decrease in prepaid expenses	(67,794)	(76)
Increase(decrease) in accounts payable	1,427	(236)
Increase(decrease) in deferred contract revenue	(1,330)	4,250
Increase(decrease) in payroll accruals	(3,029)	9,383
Net cash provided(used) by operating activities	196,615	108,378
<u>Changes in investing activities</u>		
Withdrawals from assets held by others	4,304	4,298
(Reinvestment) of dividends and interest	(1,128)	(13,049)
Net cash provided(used) by investing activities	3,176	(8,751)
<u>Changes in financing activities</u>		
Borrowing (payments) on capital lease liability	(7,018)	(6,953)
(Additions) to fixed assets	(1,809)	-
Net cash provided(used) by financing activities	(8,827)	(6,953)
Net Increase (decrease) in cash and cash equivalents	190,964	92,674
Cash and cash equivalents, beginning of year	294,418	201,744
Cash and cash equivalents, end of year	<u>\$ 485,382</u>	<u>\$ 294,418</u>
Supplemental disclosure of information:		
Cash paid during the period for interest	<u>\$ 1,042</u>	<u>\$ 486</u>
Property purchased under a capital lease	<u>\$ -</u>	<u>\$ 16,124</u>

The accompanying note are an integral part of these financial statements

PHAMALY THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE 1 - NATURE OF ACTIVITIES

Phamaly Theatre Company (the Organization) was incorporated as a non-profit corporation in the state of Colorado. Its mission is to be a creative home for theatre artists with disabilities; to model a disability affirmative theatrical process; and to upend conventional narratives by transforming individuals, audiences, and the world. Each year, the Organization serves thousands of children and adults through its productions, professional development opportunities, and community outreach. Through its innovative programming, the Organization advances the social narrative of disability to effect greater inclusion, participation, and respect for people with disabilities in all facets of society. The Organization is supported primarily through foundations, program fees, SCFD, and NEA.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

1. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. Basis of Presentation

The Organization 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 that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of directors.

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulation regarding how long the contributed asset must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

3. Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (Continued)

5. Capitalization and Depreciation

The Organization follows a practice of capitalizing all expenditures for furniture and equipment in excess of \$1,000. The fair value of donated assets is similarly capitalized. Depreciation of furniture and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

6. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. Income Taxes

The Organization has received an Internal Revenue Service exemption from federal income taxes under Section 501(c)(3). Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements.

8. Functional Reporting of Expenses

For the year ended December 31, 2019, the costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocations are determined by management on a rational and systematic basis. Salaries, employee benefits, and technology are allocated on a time and effort basis. All other expenses are allocated directly to the program to which they apply.

9. Summarized Prior-Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (Concluded)

10. Investments

Investments are reported at fair value, and classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include mutual funds, listed equities, listed derivatives, cash, and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities, and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt. Because the types of endowment investments are not known to the Organization, the Endowment (Note 6) is classified as Level 3.

11. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

12. Subsequent Events

Management has evaluated subsequent events through May 27, 2020, the date the financial statements were available to be issued.

13. Revenue and Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received; conditional promises to give with a measurable performance barrier and a right of return are not recognized until the conditions on which they depend have been met.

NOTE 3 - GRANTS RECEIVABLE – MULTI-YEAR

At December 31, 2019, grants receivable represents receivables from foundations that are anticipated to be collected in 2020 and 2021. Management has evaluated the receivables and does not believe an allowance for doubtful accounts is needed.

The Organization was awarded two multi-year grants, to be received in the following years:

<u>Payment</u>	<u>Amount</u>
2020	\$ 110,000
2021	<u>30,000</u>
Total	<u>\$ 140,000</u>

NOTE 4 - PREPAID EXPENSES

Prepaid expenses consist of the following:

<u>Description</u>	<u>Amount</u>
HONK! Winter production 2020	\$ 66,297
Security deposit 2020	2,583
Other prepaid expense	<u>901</u>
Total payments	<u>\$ 69,781</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of:

<u>Description</u>	<u>Amount</u>
Production and stage equipment	\$ 27,529
Leased copiers	<u>27,394</u>
Total	54,923
Less: accumulated depreciation	<u>(23,960)</u>
Net property and equipment	<u>\$ 30,963</u>

Depreciation expense for the year was \$7,951.

NOTE 6 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2014, the Organization established an endowment fund with the Community First Foundation for operational purposes. The Foundation has variance power over the funds. Under the terms of the endowment, the contributions are held in perpetuity. Amounts appropriated for expenditure are calculated using five percent of the average of the net fair market values of three preceding calendar years. At year-end, the fund had a fair value of \$90,934.

From time to time, the fair value of assets associated with the endowment fund may fall below the level the donor or the Colorado's Prudent Management of Institutional funds Act requires to retain as fund of perpetual duration. The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law.

A deficiency of this nature existed in the endowment fund on December 31, 2018 which has an original gift value of \$87,985, a fair value of \$82,275 and a deficiency of (\$5,710). The deficiency resulted from unfavorable market fluctuations that occurred during 2018. The deficiency was restored in 2019 through investment returns.

Changes in endowment net assets as of December 31, 2019 are as follows:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 82,275	\$ 91,857
Investment income	2,016	13,963
Net appreciation	11,835	(18,333)
Less: management fees	<u>(888)</u>	<u>(914)</u>
Net investment return	12,963	(5,284)
Less: amounts appropriated for expenditure	<u>(4,304)</u>	<u>(4,298)</u>
Balance, end of year	90,934	82,275
Less: original endowment gift	<u>(87,985)</u>	<u>(87,985)</u>
Excess(deficiency) of underwater endowment	<u>\$ 2,949</u>	<u>\$ (5,710)</u>

The Organization also earned \$93 of operating interest in 2019.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

The Organization has acquired copiers under capital leasing arrangements. The future minimum lease payments are:

<u>Year</u>	<u>Amount</u>
2020	\$ 3,588
2021	3,588
2022	3,588
2023	<u>2,691</u>
Total payments	13,455
Less: amount representing interest	<u>(1,433)</u>
Present value of capital lease obligations	<u>\$ 12,022</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted nets assets are available for the following purposes:

<u>Description</u>	<u>Amount</u>
Donor restricted endowment	\$ 90,935
HONK! Winter production	45,000
Digital Inclusivity Project	6,500
Summer 2020 productions	<u>5,000</u>
Total	<u>\$ 147,435</u>

NOTE 9 - SUBSEQUENT EVENTS

Office lease commitment:

Beginning January 1, 2020, the Organization entered into a 5-year commitment for 2,066 of rentable square feet. The future minimum lease payments are:

<u>Year</u>	<u>Amount</u>
2020	\$ 30,990
2021	32,023
2022	33,056
2023	33,572
2024	<u>34,089</u>
Total payments	<u>\$163,730</u>

Copier lease commitment:

As of the report date, the Organization has been released from the other lease commitment and entered into a new 63-month copier lease on January 10, 2020. The payments will be \$449 per month and the Organization will have the option to buy the copier for one dollar when the lease ends in March of 2025. The future minimum lease payments are:

<u>Year</u>	<u>Amount</u>
2020	\$ 5,388
2021	5,388
2022	5,388
2023	5,388
2024	5,388
2025	<u>1,347</u>
Total payments	<u>\$ 28,287</u>

NOTE 10 - IN-KIND CONTRIBUTIONS

Donated goods and services are reflected in the accompanying financial statements at their estimated values at date of receipt. In-kind contributions for the year consist of:

<u>Description</u>	<u>Amount</u>
Donated facilities	<u>\$ 25,000</u>

No amounts for non-specialized services are included as contributions in the financial statements. During 2019, Phamaly Theatre Company involved an estimated 150 part-time volunteers.

NOTE 11 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

During the year, net assets were released from donor restrictions by incurring expenses satisfying the restricted program purposes:

<u>Description</u>	<u>Amount</u>
Morph masters	\$ 37,280
Rebrand and website	35,000
Phamaly's video series	25,000
Production of Come to your Senses	25,000
Production of Chicago	5,000
Big Night fundraising event	5,000
30 th Anniversary	4,500
Distribution from donor restricted endowment	4,304
Anythink	3,000
Technical assistance	2,100
30 th Anniversary concert series	1,500
Digital inclusivity project	<u>500</u>
Total	<u>\$ 148,184</u>

NOTE 12 - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31, 2019:

<u>Financial assets at year-end:</u>	<u>Amount</u>
Cash and cash equivalents	\$ 485,382
Grants receivable	140,000
Beneficial interest in assets held by others	<u>90,934</u>
Total financial assets	\$ 716,316
Less: amounts not available for general expenditures within one year, due to:	
Donor restricted endowment (less 2020 distribution)	<u>(86,516)</u>
Total financial assets available to meet cash needs for general expenditures within one year:	<u>\$ 629,800</u>

The Organization's goal is generally to maintain financial assets to meet six months of operating expenses. Management considers donor restricted contributions that will be used within one year as part of its ordinary operations, as being available for general expenditures.

NOTE 13 - CONCENTRATION OF CREDIT RISK

The Organization places all of its cash with one financial institution. Amounts in excess of \$250,000 are not insured by the FDIC or related entity. At year-end, the Organization's uninsured checking and money market account balances total approximately \$235,381. During 2020, the Organization began going through the process of setting up a sweep account with Alpine bank to automatically transfer amounts that exceed \$250,000 into a higher interest-earning investment option at the close of each business day.

NOTE 14 - SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. The Organization expects this reality to impact its operations; however, the related financial impact and duration cannot be reasonably estimated at this time.

The Organization submitted a loan application under the Paycheck Protection Program (Program) to cover payroll and benefit costs. On April 10, 2020, the Organization received loan proceeds of \$59,700. The Program provides for loan forgiveness if the Organization can meet certain employee retention and salary requirements.

On May 18, 2020, Phamaly Theatre Company announced that they will be postponing their summer 2020 production of Alice in Wonderland. The Organization will, instead, be holding a number of virtual programming workshops, play discussions and a Webathon fundraiser.