

# **PENNSYLVANIA ACADEMY OF THE FINE ARTS**

***FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

**JUNE 30, 2019**

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## TABLE OF CONTENTS

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	<u>Page</u>
<b>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</b>	1-2
<b>FINANCIAL STATEMENTS</b>	
<i>Statements of Financial Position,</i> June 30, 2019 and 2018	3
<i>Statement of Activities and Changes in Net Assets,</i> Year ended June 30, 2019 with Summarized Information for 2018	4-5
<i>Statement of Functional Expenses,</i> Year ended June 30, 2019 with Summarized Information for 2018	6
<i>Statements of Cash Flows,</i> Years ended June 30, 2019 and 2018	7
<i>Notes to Financial Statements</i>	8-23

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**Board of Trustees  
Pennsylvania Academy of the Fine Arts  
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of Pennsylvania Academy of the Fine Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, 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 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 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 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 above present fairly, in all material respects, the financial position of Pennsylvania Academy of the Fine Arts as of June 30, 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.

**Board of Trustees  
Pennsylvania Academy of the Fine Arts  
Philadelphia, Pennsylvania**

**Report on Summarized Comparative Information**

We have previously audited Pennsylvania Academy of the Fine Arts' 2018 financial statements, and our report dated October 25, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
December 10, 2019**

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENTS OF FINANCIAL POSITION

June 30, 2019 And 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 409,922	\$ 383,947
Accounts receivable, net	126,101	283,522
Prepaid expenses	407,477	385,099
Inventories	165,243	183,050
Pledges receivable ( <i>Notes 3 and 11</i> )	<u>3,624,085</u>	<u>9,201,608</u>
<b>Total Current Assets</b>	<u>4,732,828</u>	<u>10,437,226</u>
<b>LONG-TERM ASSETS</b>		
Pledges receivable ( <i>Notes 3 and 11</i> )	2,176,499	2,848,469
Other assets ( <i>Notes 4, 8 and 11</i> )	85,937	127,870
Long term investments ( <i>Notes 4 and 7</i> )	55,005,076	44,411,331
Property, buildings and equipment ( <i>Note 5</i> )	53,966,520	52,228,293
Beneficial interest in perpetual trusts ( <i>Notes 4 and 6</i> )	<u>10,514,088</u>	<u>10,343,994</u>
<b>Total Long-Term Assets</b>	<u>121,748,120</u>	<u>109,959,957</u>
<b>Total Assets</b>	<u>\$ 126,480,948</u>	<u>\$ 120,397,183</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Line of credit ( <i>Note 7</i> )	\$ 9,200,000	\$ 8,055,000
Accounts payable	765,325	1,489,779
Accrued expenses	547,579	1,274,961
Bond payable ( <i>Note 8</i> )	606,000	541,000
Deferred revenue	<u>1,157,453</u>	<u>1,374,513</u>
<b>Total Current Liabilities</b>	12,276,357	12,735,253
<b>LONG-TERM LIABILITIES</b>		
Bonds payable ( <i>Note 8</i> )	19,665,363	20,263,545
Other liabilities ( <i>Notes 4 and 8</i> )	<u>231,727</u>	<u>-</u>
<b>Total Liabilities</b>	<u>32,173,447</u>	<u>32,998,798</u>
<b>NET ASSETS</b>		
Without donor restriction		
Undesignated	52,819,105	52,455,040
Board-designated ( <i>Note 10</i> )	<u>808,024</u>	<u>807,330</u>
Total without donor restriction	53,627,129	53,262,370
With donor restriction ( <i>Note 10</i> )	<u>40,680,372</u>	<u>34,136,015</u>
<b>Total Net Assets</b>	<u>94,307,501</u>	<u>87,398,385</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 126,480,948</u>	<u>\$ 120,397,183</u>

The accompanying notes are an integral part of these statements.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2019 With Summarized Information For 2018

	Without Donor Restrictions	With Donor Restrictions	TOTALS	
			2019	2018
<b>Program Revenues, Support Revenue and Investment Income</b>				
<b>Program Revenue</b>				
Tuition and fees, net of scholarships	\$ 6,413,915	\$ -	\$ 6,413,915	\$ 6,511,078
Continuing and public education	793,091	-	793,091	770,484
Government grants	146,897	-	146,897	117,266
Museum admissions, collection rental and fees	174,005	-	174,005	292,984
Museum shop and art supply store, net	174,236	-	174,236	200,211
Facility rental and catering	710,537	-	710,537	468,671
Women's Board	410,805	-	410,805	362,970
Other income	<u>216,551</u>	<u>-</u>	<u>216,551</u>	<u>147,444</u>
<b>Total program revenue</b>	<u>9,040,037</u>	<u>-</u>	<u>9,040,037</u>	<u>8,871,108</u>
<b>Support Revenue</b>				
Fundraising and support revenues	<u>3,626,806</u>	<u>10,769,148</u>	<u>14,395,954</u>	<u>14,850,732</u>
<b>Total support revenue</b>	<u>3,626,806</u>	<u>10,769,148</u>	<u>14,395,954</u>	<u>14,850,732</u>
<b>Investment Income</b>				
Endowment income designated for operations (Note 4)	679,078	575,686	1,254,764	756,799
Income from outside trusts	<u>469,516</u>	<u>-</u>	<u>469,516</u>	<u>444,345</u>
<b>Total investment income</b>	<u>1,148,594</u>	<u>575,686</u>	<u>1,724,280</u>	<u>1,201,144</u>
Net assets released from restrictions (Note 10)	<u>4,687,944</u>	<u>(4,687,944)</u>	<u>-</u>	<u>-</u>
<b>Total operating program, support and investment income</b>	<u>18,503,381</u>	<u>6,656,890</u>	<u>25,160,271</u>	<u>24,922,984</u>
<b>Program and Support Expenses</b>				
<b>Program Expenses</b>				
School	8,696,089	-	8,696,089	8,305,002
Continuing and public education	1,292,663	-	1,292,663	1,225,967
Women's Board	84,346	-	84,346	77,523
Museum and exhibition	<u>2,653,206</u>	<u>-</u>	<u>2,653,206</u>	<u>2,400,208</u>
<b>Total program expenses</b>	<u>12,726,304</u>	<u>-</u>	<u>12,726,304</u>	<u>12,008,700</u>
<b>Support Function Expenses</b>				
Management and general	1,757,655	-	1,757,655	1,895,186
Facility rental and catering	461,894	-	461,894	235,058
Development and fundraising	<u>1,934,437</u>	<u>-</u>	<u>1,934,437</u>	<u>1,868,021</u>
	<u>4,153,986</u>	<u>-</u>	<u>4,153,986</u>	<u>3,998,265</u>
<b>Total program and support expenses</b>	<u>16,880,290</u>	<u>-</u>	<u>16,880,290</u>	<u>16,006,965</u>
<b>Change in net assets before depreciation, gains (losses) and other income (expenses)</b>	<u>1,623,091</u>	<u>6,656,890</u>	<u>8,279,981</u>	<u>8,916,019</u>
<b>Depreciation and amortization</b>	<u>2,097,878</u>	<u>-</u>	<u>2,097,878</u>	<u>2,007,436</u>
<b>Change in net assets before gains (losses) and other income (expenses)</b>	<u>(474,787)</u>	<u>6,656,890</u>	<u>6,182,103</u>	<u>6,908,583</u>

The accompanying notes are an integral part of these statements.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS – (Continued)

Year Ended June 30, 2019 With Summarized Information For 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>TOTALS</u>	
			<u>2019</u>	<u>2018</u>
<b>Gains (Losses) and Other Income (Expenses)</b>				
Investment return in excess(deficit) of amount designated for current operations (Notes 4 and 10)	694	(282,627)	(281,933)	219,477
Other investment income (Note 4)	2,440,044	-	2,440,044	2,125,863
Change in beneficial interest in perpetual trusts (Notes 4 and 10)	-	170,094	170,094	286,187
Change in market value of interest rate swap	(255,123)	-	(255,123)	353,607
Other Income	-	-	-	31,005
Proceeds from art sale	33,780	-	33,780	-
Collection items purchased but not capitalized	<u>(1,379,849)</u>	<u>-</u>	<u>(1,379,849)</u>	<u>(6,074,018)</u>
<b>Total non-operating revenue, expenses and gain (losses)</b>	<u>839,546</u>	<u>(112,533)</u>	<u>727,013</u>	<u>(3,057,879)</u>
<b>Change in net assets</b>	364,759	6,544,357	6,909,116	3,850,704
<b>Net Assets</b>				
Beginning of year	<u>53,262,370</u>	<u>34,136,015</u>	<u>87,398,385</u>	<u>83,547,681</u>
<b>End of year</b>	<u>\$ 53,627,129</u>	<u>\$ 40,680,372</u>	<u>\$ 94,307,501</u>	<u>\$ 87,398,385</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENT OF FUNCTIONAL EXPENSES

Years Ended June 30, 2019 With Summarized Information For 2018

	2019										2018
	<u>School</u>	<u>Continuing And Public Education</u>	<u>Women's Board</u>	<u>Museum And Exhibition</u>	<u>Total Program</u>	<u>Management And General</u>	<u>Facility Rental And Catering</u>	<u>Development And Fundraising</u>	<u>Total Support</u>	<u>Total</u>	
Salaries and Benefits	\$ 4,649,485	\$ 844,775	\$ -	\$ 1,660,687	\$ 7,154,947	\$ 1,276,315	\$ 202,086	\$ 1,077,079	\$ 2,555,480	\$ 9,710,427	\$ 9,005,714
Other Operating Expenses	3,439,678	447,888	84,346	992,519	4,964,431	481,340	259,808	610,963	1,352,111	6,316,542	6,299,689
Interest	<u>606,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>606,926</u>	<u>-</u>	<u>-</u>	<u>246,395</u>	<u>246,395</u>	<u>853,321</u>	<u>701,562</u>
	<u>\$ 8,696,089</u>	<u>\$ 1,292,663</u>	<u>\$ 84,346</u>	<u>\$ 2,653,206</u>	<u>\$ 12,726,304</u>	<u>\$ 1,757,655</u>	<u>\$ 461,894</u>	<u>\$ 1,934,437</u>	<u>\$ 4,153,986</u>	<u>\$ 16,880,290</u>	<u>\$ 16,006,965</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 And 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 6,909,116	\$ 3,850,704
<b>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</b>		
Depreciation expense	2,090,060	1,999,618
Net unrealized appreciation on long-term investments	(2,728,644)	(238,691)
Net realized losses (gains) on long-term investments	215,800	(2,324,938)
Net unrealized appreciation on outside perpetual trusts	(170,094)	(286,187)
Contributions restricted for endowment	(8,221,923)	(2,351,756)
Accrued interest earned on note receivable	(1,463)	(2,438)
Forgiveness of note receivable	20,000	20,000
Bad debt expense	240,808	-
Change in market value of swap	255,123	(353,607)
Amortization of deferred bond cost	7,818	7,818
(Increase) decrease in assets		
Accounts receivable	107,613	(72,510)
Inventories	17,807	(65,861)
Pledges receivable	6,058,493	(7,215,677)
Prepaid expenses and other assets	(22,378)	(14,860)
Increase (decrease) in liabilities		
Accounts payable	(724,454)	535,299
Accrued expenses	(727,382)	545,829
Deferred revenue	(217,060)	292,417
<b>Net cash provided by (used for) operating activities</b>	<u>3,109,240</u>	<u>(5,674,840)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(3,828,287)	(3,417,620)
Purchases of long-term investments	(16,796,350)	(8,254,869)
Proceeds from sale of long-term investments	<u>8,715,449</u>	<u>12,048,175</u>
<b>Net cash (used for) provided by investing activities</b>	<u>(11,909,188)</u>	<u>375,686</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for endowment	8,221,923	2,351,756
Net proceeds from line of credit	1,145,000	1,825,000
Repayments of long-term debt	<u>(541,000)</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<u>8,825,923</u>	<u>4,176,756</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	25,975	(1,122,398)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>383,947</u>	<u>1,506,345</u>
<b>End of year</b>	<u>\$ 409,922</u>	<u>\$ 383,947</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	<u>\$ 821,191</u>	<u>\$ 697,191</u>

The accompanying notes are an integral part of these statements.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## *NOTES TO FINANCIAL STATEMENTS*

**June 30, 2019 And 2018**

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### **(1) NATURE OF ORGANIZATION**

#### **NATURE OF ORGANIZATION**

Founded in 1805, the Pennsylvania Academy of the Fine Arts (“PAFA”) is the first and oldest art school and art museum in the United States. PAFA’s mission statement declares:

As the first art museum and school in the United States, PAFA celebrates the transformative power of art and art making.

PAFA inspires the public by expanding the stories of American art through its collections, exhibitions, and programs; and educates artists from around the world to be innovative makers and critical thinkers with a deep understanding of traditions and the ability to challenge conventions.

Through its world-class museum and school, PAFA nurtures and recognizes artists at every turn in their career.

The museum collects, preserves, exhibits and interprets works of American art, both historic and contemporary, for the benefit of public education. The museum is committed to expanding knowledge of, and appreciation for, American artists and their work.

The School of Fine Arts at PAFA offers four nationally and regionally accredited degree and certificate programs – a Bachelor of Fine Arts degree program, offering majors in painting, drawing, sculpting, illustration, and printmaking; a post-baccalaureate certificate program; a Master of Fine Arts degree program; and a second Master of Fine Arts degree program that combines three summers of intensive residency with two academic years of virtual classroom study. Students may also earn a Bachelor of Fine Arts Degree via a collaborative program with the University of Pennsylvania, dating back to 1929.

The Brodsky Center is an innovative art making venture that moved to PAFA from Rutgers in 2018. The Center publishes prints, artist books, and handmade paper objects in collaboration with artists in residence, and teaches entrepreneurial skills to PAFA’s students.

In addition, PAFA offers a wide array of public education programs, serving audiences ranging from young children to adults.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by PAFA are described below.

#### ***BASIS OF PRESENTATION***

##### ***CASH EQUIVALENTS***

PAFA considers highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

##### ***CONCENTRATION OF CREDIT RISK***

PAFA occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“ASC”) 825, “*Financial Instruments*”, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

PAFA’s principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to PAFA’s investment goals for total investment return, yield, and tolerance of investment risk and investment turnover. The degree and concentration of credit risk vary by the type of investment.

##### ***USE OF ESTIMATES***

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

##### ***INVESTMENTS***

PAFA records investments at fair market value. Fair value of investments is determined using quoted market prices of a national securities exchange. Unrealized and realized gains and losses on investments are recognized as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulations or by law.

##### ***PROPERTY, BUILDINGS AND EQUIPMENT***

Property, buildings and equipment are stated at cost or appraised value at the date of donation.

Maintenance, repairs and minor renewals are charged to expense. Major renewals, improvements or renovations which prolong the life of the assets are capitalized. The cost of current additions to exhibits, books and art literature is charged to expense. A portion of such cost may be reimbursed by designated contributed funds and income of certain endowment funds.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives are as follows:

Buildings	10 – 40 years
Building improvement	10 – 20 years
Equipment, furniture and fixtures	3 – 5 years

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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### **FUNDS HELD IN TRUST BY OTHERS**

PAFA is the recipient/beneficiary of several irrevocable perpetual trust arrangements which are held by others. PAFA accounts for perpetual trusts held by third parties at the fair value of the assets.

### **WORKS OF ART**

PAFA maintains a collection of rare American art that is held for public exhibition. The collection is kept under curatorial care and is subject to PAFA's policy that requires the proceeds from the sales of accessioned collection items to be used only to acquire other items for collection. PAFA does not recognize the contributions of donated collection items, as its collections are not capitalized. During the year ended June 30, 2019 and 2018, PAFA had donated accessions with approximate appraised values totaling \$1,956,100 and \$451,100, respectively. Collection items purchased but not capitalized totaled \$1,379,849 and \$6,074,018 during the years ended June 30, 2019 and 2018, respectively. In addition, PAFA received \$33,780 for the sale of art works during the year ended June 30, 2019.

### **INCOME TAXES**

PAFA has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code, which is not a private foundation under Section 509(a) of the Code, and files a Form 990 (Return of Organization Exempt from Income Tax) annually for information purposes. Accordingly, no provision for income taxes is provided in the accompanying financial statements.

PAFA has reviewed its tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on federal and state tax returns for the open tax years (2015 – 2017) or is expected to be taken in the current 2018 tax year.

### **NET ASSETS**

PAFA's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The principles require that net assets, revenues, gains, expenses and losses be classified as without donor restriction or with donor restriction based on the existence or absence of donor-imposed restrictions as follows:

**Net Assets Without Donor Restrictions:** Net assets that are not subject to donor-imposed stipulations. Net assets without restriction of PAFA include the following:

**Undesignated:** Include the revenues and expenses associated with the principal educational mission of PAFA.

**Funds Functioning as Endowment:** Includes the contribution without donor restriction bequests which the Board of Trustee have designated as funds functioning as endowment for the purpose of administering the operations of the Brodsky Center (the "Center" – see Note 10). Investment income in excess of the spending rate utilized by PAFA for its endowment funds will be reinvested and used for future Center operations.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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**Net Assets With Donor Restrictions:** Net assets whose use by PAFA is subject to donor-imposed or legal stipulations that can be fulfilled by actions of PAFA pursuant to those stipulations or that expire by the passage of time. Expiration of the restriction is reported by reclassification from net assets with donor restriction by time/purpose to net assets without donor restrictions. Net assets with donor restrictions also includes gifts, trusts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions and beneficial interest in perpetual trusts, which are held by third parties for the benefit of PAFA.

Revenues and net gains are reported as increases in net assets without donor restrictions unless the revenue is restricted by donor-implied restrictions. Expenses are reported as decreases in net assets without donor restrictions. Periodically donor restrictions related to net assets may be clarified or changed; such changes are reflected as fund transfers in the period in which they are identified.

### **CONTRIBUTIONS**

Pledges without donor restrictions and with donor restrictions are recorded as revenue in the year the pledge is made.

PAFA reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, except if the restriction is met in the same year the contribution is received, then PAFA classifies the contribution as net assets without donor restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities as **“net assets released from restrictions”**.

### **ALLOCATION OF FUNCTIONAL EXPENSES**

The costs of providing PAFA’s programs have been summarized on a functional basis in the statement of functional expenses. Costs are directly charged to a specific activity when the costs pertain solely to such activity. Certain program costs have been allocated based on revenues and other costs have been allocated between programs and supporting services based on direct expenses attributable to programs and supporting services.

### **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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with PAFA’s financial statements for the year ended June 30, 2018, from which the summarized information was derived.

### **NEW ACCOUNTING PRONOUNCEMENTS**

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. This guidance also enhances disclosures for board designated amounts, under water endowment funds, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. This ASU was adopted by the PAFA’s for the year ended June 30, 2019 and did not have a material effect on the statement of financial position or results of operations.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 are as follows:

<u>Net Asset Classifications</u>	<u>Balance At June 30, 2018 As Previously Reported</u>	<u>Adjustments From ASU 2016-14</u>	<u>Balance At July 1, 2018 As Adjusted</u>
Unrestricted Net Assets	\$ 53,262,370	\$ (53,262,370)	\$ -
Temporarily Restricted	5,185,956	(5,185,956)	-
Permanently Restricted	28,950,059	(28,950,059)	-
Without Donor Restriction	-	53,262,370	53,262,370
With Donor Restriction	<u>-</u>	<u>34,136,015</u>	<u>34,136,015</u>
Net assets previously presented	<u>\$ 87,398,385</u>	<u>\$ -</u>	<u>\$ 87,398,385</u>

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU was adopted by PAFA for the year ended June 30, 2019 and did not have a material effect on the statement of financial position or results of operations.

### ***NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED***

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The ASU should be applied using a modified prospective basis. PAFA plans to adopt the new ASU at the required implementation date.

In 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. PAFA plans to adopt the new ASU at the required implementation date.

### ***RECLASSIFICATION***

Certain account balances in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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### (3) PLEDGES RECEIVABLE

Pledges receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Capital Campaign pledges receivable	\$ 2,693,040	\$ 6,925,734
Major Gifts pledges receivable	2,279,444	2,975,343
Endowment pledge receivable	<u>828,100</u>	<u>2,149,000</u>
Total pledges receivable	5,800,584	12,050,077
Less: current portion	<u>(3,624,085)</u>	<u>(9,201,608)</u>
Pledges receivable – long-term	<u>\$ 2,176,499</u>	<u>\$ 2,848,469</u>

PAFA had pledges receivable relating to the capital campaign and major gifts as of June 30 as follows:

	<u>2019</u>	<u>2018</u>
Pledges receivable Capital Campaign:		
Past due and due within a year	\$ 1,915,977	\$ 5,178,390
Due between one and five years	<u>813,560</u>	<u>1,922,420</u>
Pledges receivable, gross	2,729,537	7,100,810
Less: allowance for doubtful accounts and discount	<u>(36,497)</u>	<u>(175,076)</u>
Pledges receivable Capital Campaign, net	<u>\$ 2,693,040</u>	<u>\$ 6,925,734</u>
Pledges receivable Major Gifts:		
Due within a year	\$ 1,358,108	\$ 2,673,218
Due between one and five years	1,042,667	405,665
Due greater than five years	<u>100,000</u>	<u>-</u>
Pledges receivable, gross	2,500,775	3,078,883
Less: allowance for doubtful accounts and discount	<u>(221,331)</u>	<u>(103,540)</u>
Pledges receivable Major Gifts, net	<u>\$ 2,279,444</u>	<u>\$ 2,975,343</u>
Pledges receivable Endowment:		
Due within a year	\$ 350,000	\$ 1,350,000
Due between one and three years	<u>500,000</u>	<u>850,000</u>
Pledges receivable, gross	850,000	2,200,000
Less: discount	<u>(21,900)</u>	<u>(51,000)</u>
Pledges receivable Endowment, net	<u>\$ 828,100</u>	<u>\$ 2,149,000</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

### (4) INVESTMENTS

Investments consist of the following at June 30:

	<b>2019</b>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Money Market Funds	\$ 1,703,815	\$ -	\$ -	\$ 1,703,815
Common Stocks	19,525,938	5,845,445	-	25,371,383
Mutual Funds/Exchange Traded Funds	15,316,422	71,064	-	15,387,486
Pooled Investment Fund - Private Equity/Hedge Fund	<u>8,947,722</u>	<u>3,594,670</u>	<u>-</u>	<u>12,542,392</u>
	<u>\$ 45,493,897</u>	<u>\$ 9,511,179</u>	<u>\$ -</u>	<u>\$ 55,005,076</u>

  

	<b>2018</b>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Money Market Funds	\$ 3,888,361	\$ -	\$ -	\$ 3,888,361
Common Stocks	10,089,722	3,348,468	-	13,438,190
Mutual Funds/Exchange Traded Funds	15,084,775	928,248	-	16,013,023
Pooled Investment Fund - Private Equity/Hedge Fund	<u>8,565,938</u>	<u>2,505,819</u>	<u>-</u>	<u>11,071,757</u>
	<u>\$ 37,628,796</u>	<u>\$ 6,782,535</u>	<u>\$ -</u>	<u>\$ 44,411,331</u>

PAFA has various pooled investment funds, within BBH Wealth Strategies, LLC REMS Group Series, for \$12,542,392 and \$11,071,757 as of June 30, 2019 and 2018, respectively. The fair value of the investments is based on the net asset value of the funds and is furnished by each fund's management. The investment objective of the BBH Wealth Strategies Series of investment funds is to achieve long-term capital growth and current income by investing in a portfolio of debt and domestic and international equity securities including private debt and publicly traded equity securities. As of June 30, 2019 and 2018, PAFA has no outstanding commitment for further investment into this Series of funds. Investors of these funds are eligible for redemptions ranging from month-end to annual redemptions with proper prior notification.

Investments as of June 30, 2019 and 2018, include without donor restricted investments of \$28,664,124 and \$27,130,655 respectively, which are invested separately from those investments for the endowment funds. Other investment income of \$2,440,044 and \$2,125,863 for the years ended June 30, 2019 and 2018, respectively, represents the net investment income on these without donor restricted investments. As of June 30, 2019, PAFA has no additional commitment for further investment to the Fund.

The change in unrealized gain was \$2,728,644 and \$238,691 in 2019 and 2018, respectively.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

**June 30, 2019 And 2018**

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For the years ended June 30, 2019 and 2018, the Board approved a 5% spending rate, respectively, to its net assets to ensure preservation and growth of the corpus and to provide for a constant stream of income. The spending rate is based on the average net asset balance for the previous three years. If investment income during the year is in excess of the spending rate, the balance is reinvested. If investment income is not sufficient, the balance is provided from previously reinvested amounts. The following schedule summarizes the investment return of the endowment funds and its classification in the statement of activities:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>June 30, 2019 Total</u>	<u>June 30, 2018 Total</u>
Interest and dividends (net of fees of \$76,755 in 2019 and \$70,954 in 2018, respectively)	\$ 435,478	\$ -	\$ 435,478	\$ 326,199
Net realized and unrealized gains	<u>244,294</u>	<u>293,059</u>	<u>537,353</u>	<u>650,077</u>
Return on long-term investments	679,772	293,059	972,831	976,276
Investment return designated for current operations	<u>679,078</u>	<u>575,686</u>	<u>1,254,764</u>	<u>756,799</u>
Investment return in excess of amounts designated for current operations	<u>\$ 694</u>	<u>\$(282,627)</u>	<u>\$(281,933)</u>	<u>\$219,477</u>

PAFA utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that PAFA has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing PAFA's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

The summary of inputs used to value PAFA’s assets and liabilities that are carried at fair value as of June 30, 2019 and 2018 are as follows:

	<b>2019</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Investments</b>				
Money Market Funds	\$ 1,703,815	\$ -	\$ -	\$ 1,703,815
Common Stocks	25,371,383	-	-	25,371,383
Mutual Funds	<u>15,387,486</u>	<u>-</u>	<u>-</u>	<u>15,387,486</u>
	<u>\$42,462,684</u>	<u>\$ -</u>	<u>\$ -</u>	42,462,684
Alternative Investments reported at Net Asset Value				<u>12,542,392</u>
				<u>\$ 55,005,076</u>
Beneficial Interest in Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,514,088</u>	<u>\$ 10,514,088</u>
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$(231,727)</u>	<u>\$ -</u>	<u>\$ (231,727)</u>

	<b>2018</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Investments</b>				
Money Market Funds	\$ 3,888,361	\$ -	\$ -	\$ 3,888,361
Common Stocks	13,438,190	-	-	13,438,190
Mutual Funds	<u>16,013,023</u>	<u>-</u>	<u>-</u>	<u>16,013,023</u>
	<u>\$33,339,574</u>	<u>\$ -</u>	<u>\$ -</u>	33,339,574
Alternative Investments reported at Net Asset Value				<u>11,071,757</u>
				<u>\$ 44,411,331</u>
Beneficial Interest in Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,343,994</u>	<u>\$ 10,343,994</u>
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 23,396</u>	<u>\$ -</u>	<u>\$ 23,396</u>

The Beneficial Interest in Perpetual Trust is measured at the estimated cash flows which involve unobservable inputs. As a result, the present value technique is a Level 3 input.

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2019 or 2018.

The changes in investments measured at fair value for which PAFA used Level 3 inputs to determine fair value are as follows:

	<b>Beneficial Interest In Perpetual Trust</b>	
	<b>2019</b>	<b>2018</b>
Balance, July 1	\$ 10,343,994	\$ 10,057,807
Unrealized gains	<u>170,094</u>	<u>286,187</u>
Balance, June 30	<u>\$ 10,514,088</u>	<u>\$ 10,343,994</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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### (5) PROPERTY, BUILDINGS AND EQUIPMENT

A summary of property, buildings and equipment as of June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Land, buildings and improvements	\$ 76,025,686	\$ 68,319,131
Furniture, fixtures and equipment	<u>5,372,571</u>	<u>5,123,722</u>
	81,398,257	73,442,853
Less accumulated depreciation	<u>(27,435,893)</u>	<u>(25,345,833)</u>
	53,962,364	48,097,020
Construction in progress	<u>4,156</u>	<u>4,131,273</u>
	<u>\$ 53,966,520</u>	<u>\$ 52,228,293</u>

Conditional asset retirement obligations (“*AROs*”) that meet the definition of liabilities should be recognized when incurred if their fair value can be reasonably estimated. As of June 30, 2019, PAFA was unable to determine the extent of any remediation AROs that would be required in the future.

Depreciation expense was \$2,090,060 and \$1,999,618 for years ended June 30, 2019 and 2018, respectively.

### (6) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The beneficial interest in perpetual trusts of \$10,514,088 and \$10,343,994 at June 30, 2019 and 2018, respectively, includes PAFA’s respective share of the fair value of the total funds held in trust by others for which PAFA is the recipient of all or a percentage of the income.

### (7) LINE OF CREDIT

PAFA has two revolving lines of credit for \$11,000,000. The lines of credit, \$7,500,000 for capital projects and \$3,500,000 for working capital, are collateralized by certain marketable securities held by a financial institution and expire July 31, 2021. Interest on the line of credit is payable monthly at a variable percentage based upon the J.P. Morgan Chase Guaranty Prime Rate minus 1.40% (4.10% and 3.60% as of June 30, 2019 and 2018, respectively). At June 30, 2019 and 2018, the outstanding balance on the lines of credit was \$9,200,000 and \$8,055,000, respectively. Interest expense on the lines of credit was \$317,766 and \$206,625 for the years ended June 30, 2019 and 2018, respectively.

### (8) LONG-TERM DEBT

On June 25, 2015, PAFA borrowed \$21,000,000 through the issuance of tax-exempt Revenue Bonds, Series 2015A through the Philadelphia Authority for Industrial Development, the proceeds of which were used to refinance its 2010 Bonds and any obligations owed to PNC Bank, N.A. as letter of credit provider on the 2010 Bonds, a portion of the outstanding credit line with Haverford Trust, and to finance the costs of issuance. The Bryn Mawr Trust Company purchased the Bonds from the Authority.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

**June 30, 2019 And 2018**

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The tax-exempt Bonds will mature on June 25, 2043 and may be prepaid in whole or in part at any time. Bryn Mawr Trust Company has the option to declare outstanding principal and unpaid interest due payable in full on each 7<sup>th</sup> anniversary of the bond issuance date. The tax-exempt interest rates are variable and are adjustable monthly by The Bryn Mawr Trust Company. The floating rate per annum is the sum of LIBOR plus 1.30% multiplied by sixty-seven percent (effective rate as of June 30, 2019 and 2018 was 2.51% and 2.20%, respectively). Interest is paid monthly on the outstanding principal. Bonds payable of \$20,271,363 and \$20,804,545 as of June 30, 2019 and 2018 reflects bonds payable of \$20,459,000 and \$21,000,000 net of unamortized deferred financing expenses of \$187,637 and \$195,455, respectively. Deferred financing expenses are being amortized on a straight-line basis over the life of the Bonds.

In connection with the issuance of the 2015 Bonds, PAFA entered into an interest rate swap agreement with the Bryn Mawr Trust Company. The swap agreement requires PAFA to pay a fixed interest rate of 2.62% on a notional balance of \$12,600,000 while receiving a variable interest rate equal to the rate paid for the Bond. The purpose of the swap agreement is to hedge against increases in the variable interest rates on the 2015 Bonds. The market value of the swap was \$231,727 in favor of the bank as of June 30, 2019 and is included in other liabilities in the statement of financial position. The market value of the swap was \$23,396 in favor of PAFA as of June 30, 2018 and is included in other assets in the statement of financial position.

PAFA must maintain certain financial covenants in accordance with the 2015 Bond agreement:

- a. Maintain unencumbered liquidity at least equal to \$21,000,000 tested semi-annually
- b. Maintain net assets without donor restriction at least equal to \$28,500,000

Total interest expense on the tax-exempt bonds, 2015 issue, was \$535,555 and \$494,937 for the years ended June 30, 2019 and 2018, respectively.

Redemption payments required under the Bond Agreements are as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Amount</u></b>
2020	\$ 606,000
2021	621,000
2022	640,000
2023	656,000
2024	676,000
Thereafter	<u>17,260,000</u>
Bond Payable at June 30, 2019, gross	20,459,000
Deferred Financing Expenses	<u>(187,637)</u>
Bond Payable at June 30, 2019, Net	20,271,363
Less current maturities	<u>(606,000)</u>
	<b><u>\$ 19,665,363</u></b>
Bond Payable at June 30, 2018, gross	\$ 21,000,000
Deferred Financing Expenses	<u>(195,455)</u>
Bond Payable at June 30, 2018, Net	20,804,545
Less current maturities	<u>(541,000)</u>
	<b><u>\$ 20,263,545</u></b>

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# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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### (9) RETIREMENT PLANS

PAFA has a defined contribution plan covering employees over the age of 21 who work 1,000 hours or more in a calendar year. Under this plan, employees can contribute to the plan immediately, not to exceed the limits imposed by IRC 402(g). Effective after ninety days of employment, PAFA matches up to 4% for each employee contribution. During the years ended June 30, 2019 and 2018, PAFA contributed approximately \$198,000 and \$193,000, respectively, to the plan.

PAFA also has a defined benefit pension plan covering certain former employees. Benefits under the plan are based on employees' years of service and compensation. The related assets and liabilities of this plan are not material to the financial statements.

### (10) NET ASSETS

Net assets with a donor restriction at June 30, 2019 and 2018 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
<b>Subject to expenditure for a specified purpose:</b>		
Building fund	\$ 25,000	\$ 25,000
Campus Master Plan – Capital Campaign, net of discount	890,307	3,272,493
Major gifts-time restriction/purpose	1,456,710	1,456,770
Scholarships	<u>1,242,624</u>	<u>425,411</u>
	<u>3,614,641</u>	<u>5,179,674</u>
<b>Perpetual in nature:</b>		
Operations	5,064,406	5,064,406
Art acquisitions and conservation	3,349,691	3,349,691
Museum operations	930,868	929,868
School scholarships and prizes	16,173,044	7,952,121
School – other	1,309,979	1,309,979
Beneficial interest in perpetual trusts	<u>10,514,088</u>	<u>10,343,994</u>
	<u>37,342,076</u>	<u>28,950,059</u>
Accumulated endowment income	<u>(276,345)</u>	<u>6,282</u>
Total net assets with donor restrictions	<u>\$40,680,372</u>	<u>\$34,136,015</u>

Net assets were released from donor restrictions by satisfying the restricted purpose during the year ended June 30, 2019, as follows:

Purpose and time restrictions accomplished:

	<u>2019</u>
Acquisition of art	\$ 140,236
Campus Master Plan – Capital Campaign	3,669,370
Major gifts-time restriction/purpose	234,102
Scholarships	<u>644,236</u>
	<u>\$4,687,944</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

Endowment net asset composition by type of fund as of June 30, 2019 and 2018:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds perpetual in duration -			
Original gift amount	\$ -	\$ 37,342,076	\$ 37,342,076
Accumulated endowment income	-	(276,345)	(276,345)
Funds functioning as endowment funds	<u>808,024</u>	<u>-</u>	<u>808,024</u>
Total Fund	<u>\$ 808,024</u>	<u>\$ 37,065,731</u>	<u>\$ 37,873,755</u>

  

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds perpetual in duration -			
Original gift amount	\$ -	\$ 28,950,059	\$ 28,950,059
Accumulated endowment income	-	6,282	6,282
Funds functioning as endowment funds	<u>807,330</u>	<u>-</u>	<u>807,330</u>
Total Fund	<u>\$ 807,330</u>	<u>\$ 28,956,341</u>	<u>\$ 29,763,671</u>

PAFA classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as net assets with donor restriction. Commonwealth of Pennsylvania law stipulates that realized and unrealized gains on endowment assets may be expended for the purposes stipulated by the donors only to the extent that the total of such expenditures, including dividends and interest and less fees, do not exceed 7% of the average of the three most recent fiscal years' fair values of the net assets with donor restriction held in perpetuity. Realized and unrealized gains in excess of the annual limitation would be included in the statements of activities as increases in the net assets with donor restriction. Such restricted amounts may be released to net assets without donor restriction in future years based on authorization by PAFA only to the extent of the 7% limitation applicable to the year in which they are to be released.

During 2018, PAFA executed an asset transfer agreement in which PAFA received \$807,330, equipment and print inventory. Under the agreement, PAFA agreed to administer these quasi-endowment funds known as the Brodsky Center (the "Center") funds. The Center was originally established to promote the art of printmaking through the use of its printing equipment. PAFA has agreed to spend the investment earnings from these quasi-endowment funds in compliance with its Board of Trustees' policy with respect to all of its endowment funds. The board-designated net assets related to the Brodsky Center as presented in the statement of financial position was \$808,024 and \$807,330 as of June 30, 2019 and 2018, respectively.

### FUNDS WITH DEFICIENCIES

The fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires PAFA to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2019, certain funds had deficiencies which amounted to \$358,270. These deficiencies resulted primarily from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments. The market value and cost basis associated with endowments with deficiencies was \$8,477,173 and \$8,835,443 as of June 30, 2019.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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Changes in endowment net assets for the years ended June 30, 2019 and 2018:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 807,330	\$ 28,956,341	\$ 29,763,671
Investment income, net	435,478	-	435,478
Realized and unrealized gains	244,294	293,059	537,353
Contributions	-	8,221,923	8,221,923
Endowment income designated for current operations	(679,078)	(575,686)	(1,254,764)
Change in beneficial interest in perpetual trust	<u>-</u>	<u>170,094</u>	<u>170,094</u>
	<u>\$ 808,024</u>	<u>\$ 37,065,731</u>	<u>\$ 37,873,755</u>

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (213,195)	\$ 26,312,116	\$ 26,098,921
Investment income, net	326,199	-	326,199
Realized and unrealized gains	492,435	157,642	650,077
Contributions	807,330	2,351,756	3,159,086
Endowment income designated for current operations	(605,439)	(151,360)	(756,799)
Change in beneficial interest in perpetual trust	<u>-</u>	<u>286,187</u>	<u>286,187</u>
	<u>\$ 807,330</u>	<u>\$ 28,956,341</u>	<u>\$ 29,763,671</u>

### (11) RELATED PARTY TRANSACTIONS

PAFA had the following related party transactions:

- ♦ PAFA uses the services of a Trust Company where three Board members are paid Directors. Assets under management with this investment company totaled approximately \$26,341,000 and \$17,280,700 as of June 30, 2019 and 2018, respectively. PAFA was charged investment fees by the investment company. The fee was approximately for \$77,000 and \$71,000 for the years ended June 30, 2019 and 2018, respectively. In addition, this Trust Company provides a line of credit for PAFA; interest expense during the years ended June 30, 2019 and 2018 for this line of credit was approximately \$317,800 and \$206,600, respectively.
- ♦ PAFA has an employment agreement with its President whereby PAFA paid \$200,000 during fiscal year 2009 to assist in acquiring a residence. As of June 30, 2019, and 2018, the balance on the note receivable for purchase of this residence, including accrued interest, is \$85,937 and \$104,474, respectively, and is included in other assets in the statement of financial position. PAFA has an equity interest in the property. Accrued interest income was \$1,463 and \$2,438 for the years ended June 30, 2019 and 2018, respectively.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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- ♦ PAFA receives the income from a beneficial trust held by a third party, of which one of the Trustees of that beneficial trust is a Board member of PAFA.
- ♦ PAFA has approximately \$1,288,000 and \$1,683,000 as of June 30, 2019 and 2018, respectively, in pledges for capital campaign and other purposes from several board members and their foundations.
- ♦ The President of the financial institution which provided PAFA the 2015 Bond debt was a Board member of PAFA through the year ended June 30, 2019.

### (12) COMMITMENTS AND CONTINGENCIES

#### *OPERATING LEASES*

PAFA leases certain office equipment and student housing apartments under lease agreements which expire at various dates through fiscal year 2024. In accordance with the student housing apartments lease, PAFA has a termination right commencing with the lease year ending July 31, 2019 and each lease year end thereafter subject to six months advance written notice and applicable termination penalty.

Future minimum rental payments required under these non-cancellable operating leases are as follows:

2020	\$ 745,929
2021	754,477
2022	713,520
2023	720,098
2024	<u>59,898</u>
Total	<u>\$2,993,922</u>

#### *LITIGATION*

PAFA is involved in certain litigation arising out of the conduct of its business. In the opinion of management and legal counsel, the resolution of such matters will not have a material adverse effect on PAFA's financial position.

#### *GRANTS*

Financial assistance from the federal and state governments in the form of grants and student aid/loans are subject to audit by the granting entity. An audit could result in claims for disallowed costs or noncompliance with regulations. In the opinion of management, any such liability, if any, will not have a material adverse effect on PAFA's financial position.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2019 And 2018

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### (13) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects PAFA’s financial assets and liquidity resources available as of June 30, 2019, reduced by amounts that are not available within one year for general expenses and scheduled principal payments and interest payments on debt because of donor and/or contractual restrictions:

	<u>2019</u>
Financial assets:	
Cash and cash equivalents	\$ 409,922
Investments	55,005,076
Accounts receivable	126,101
Pledge receivable current	<u>3,624,085</u>
Total financial assets available within one year	59,165,184
Estimated 2020 endowment income designated for operations	920,000
Assets restricted/designated as to use:	
Endowment funds without donor restriction	(808,024)
Donor restricted endowment funds	(26,551,643)
Other donor restricted funds	<u>(3,614,641)</u>
Total financial assets and liquidity resources available within one year	<u>\$ 29,110,876</u>

PAFA’s cash flows have seasonal variations during the year attributable to tuition billing and a concentration of contributions received at calendar and fiscal year-end. To manage liquidity, PAFA maintains a working capital line of credit with a bank for \$3,500,000 which can be drawn upon as needed to manage cash flows.

### (14) SUBSEQUENT EVENTS

Subsequent events after the statement of financial position date through the date that the financial statements were available for issuance, December 10, 2019 have been evaluated in the preparation of the financial statements and management has determined that there are no subsequent events that would require disclosure or adjustment in the financial statements.