

# **PENNSYLVANIA ACADEMY OF THE FINE ARTS**

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

**JUNE 30, 2020**

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

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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, 2020, 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, 2020, 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' 2019 financial statements, and our report dated December 10, 2019, 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, 2019, 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, 2020**

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENTS OF FINANCIAL POSITION

June 30, 2020 And 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 250,315	\$ 409,922
Accounts receivable, net	229,691	126,101
Prepaid expenses	280,340	407,477
Merchandise held for resale	189,050	165,243
Pledges receivable <i>(Notes 3 and 12)</i>	3,693,504	5,800,584
Other assets	66,425	85,937
Long term investments <i>(Notes 4 and 8)</i>	53,601,752	55,005,076
Property, buildings and equipment <i>(Note 5)</i>	52,461,320	53,966,520
Beneficial interest in perpetual trusts <i>(Notes 4 and 6)</i>	<u>10,557,249</u>	<u>10,514,088</u>
<b>Total Assets</b>	<b><u>\$ 121,329,646</u></b>	<b><u>\$ 126,480,948</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Line of credit <i>(Note 8)</i>	\$ 1,700,000	\$ 9,200,000
Refundable advance <i>(Note 7)</i>	1,799,100	-
Accounts payable	673,609	765,325
Accrued expenses	772,622	572,425
Deferred revenue	1,048,782	1,132,607
Bond payable <i>(Note 9)</i>	24,692,460	20,271,363
Other liabilities <i>(Notes 4 and 9)</i>	<u>771,462</u>	<u>231,727</u>
<b>Total Liabilities</b>	<b><u>31,458,035</u></b>	<b><u>32,173,447</u></b>
<b>NET ASSETS</b>		
Without donor restriction		
Undesignated	50,538,480	52,819,105
Board-designated <i>(Note 11)</i>	<u>774,418</u>	<u>808,024</u>
Total without donor restriction	51,312,898	53,627,129
With donor restriction <i>(Note 11)</i>	<u>38,558,713</u>	<u>40,680,372</u>
<b>Total Net Assets</b>	<b><u>89,871,611</u></b>	<b><u>94,307,501</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 121,329,646</u></b>	<b><u>\$ 126,480,948</u></b>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2020 With Summarized Information For 2019

	Without Donor Restrictions	With Donor Restrictions	TOTALS	
			2020	2019
<b>Program Revenues, Support Revenue and Investment Income</b>				
Tuition and fees, net of scholarships	\$ 5,318,236	\$ -	\$ 5,318,236	\$ 5,627,824
Continuing and public education	562,930	-	562,930	792,240
Museum operations	233,340	-	233,340	157,860
Auxiliary operations, net of costs of sales	732,450	-	732,450	910,687
Gifts and Grants	5,167,926	2,448,892	7,616,818	14,993,951
Investment income				
Endowment income designated for operations ( <i>Note 4</i> )	725,401	530,808	1,256,209	1,254,764
Income from outside trusts	458,536	-	458,536	469,516
Other	176,737	-	176,737	208,545
Net assets released from restrictions ( <i>Note 11</i> )	<u>4,060,421</u>	<u>(4,060,421)</u>	<u>-</u>	<u>-</u>
<b>Total operating program revenues, support revenue and investment income</b>	<u>17,435,977</u>	<u>(1,080,721)</u>	<u>16,355,256</u>	<u>24,415,387</u>
<b>Program and Support Expenses</b>				
<b>Program Expenses</b>				
College	4,964,568	-	4,964,568	4,644,895
Campus operations	3,257,585	-	3,257,585	3,501,615
Continuing and public education	847,119	-	847,119	1,330,578
Museum operations	1,810,771	-	1,810,771	1,764,336
Auxiliary operations	<u>587,342</u>	<u>-</u>	<u>587,342</u>	<u>697,197</u>
<b>Total program expenses</b>	<u>11,467,385</u>	<u>-</u>	<u>11,467,385</u>	<u>11,938,621</u>
<b>Support Expenses</b>				
Management and general	2,639,376	-	2,639,376	2,404,391
Fundraising	<u>1,428,289</u>	<u>-</u>	<u>1,428,289</u>	<u>1,773,857</u>
<b>Total support expenses</b>	<u>4,067,665</u>	<u>-</u>	<u>4,067,665</u>	<u>4,178,248</u>
<b>Total program and support expenses</b>	<u>15,535,050</u>	<u>-</u>	<u>15,535,050</u>	<u>16,116,869</u>
<b>Change in net assets before depreciation and amortization, non-operating revenues, expenses and gains (losses)</b>	<u>1,900,927</u>	<u>(1,080,721)</u>	<u>820,206</u>	<u>8,298,518</u>
<b>Non- Operating Revenues, Expenses and Gains/(Losses)</b>				
Depreciation and amortization	(2,172,594)	-	(2,172,594)	(2,097,878)
Investment return in excess (deficit) of amount designated for current operations ( <i>Notes 4 and 11</i> )	(33,606)	(1,084,099)	(1,117,705)	(281,933)
Other investment income ( <i>Note 4</i> )	654,600	-	654,600	2,440,044
Change in beneficial interest in perpetual trusts ( <i>Notes 4 and 11</i> )	-	43,161	43,161	170,094
Change in market value of interest rate swap ( <i>Note 9</i> )	(539,735)	-	(539,735)	(255,123)
Loss on termination of interest rate swap agreement ( <i>Note 9</i> )	(405,046)	-	(405,046)	-
Loss on early extinguishment of deferred financing expenses ( <i>Note 9</i> )	(180,144)	-	(180,144)	-
Other loss ( <i>Note 12</i> )	(20,000)	-	(20,000)	(18,537)
Proceeds from art sale	2,170	-	2,170	33,780
Collection items purchased not capitalized	<u>(1,520,803)</u>	<u>-</u>	<u>(1,520,803)</u>	<u>(1,379,849)</u>
<b>Total depreciation and amortization, non-operating revenue, expenses and gains/(losses)</b>	<u>(4,215,158)</u>	<u>(1,040,938)</u>	<u>(5,256,096)</u>	<u>(1,389,402)</u>
<b>Change in net assets</b>	<u>(2,314,231)</u>	<u>(2,121,659)</u>	<u>(4,435,890)</u>	<u>6,909,116</u>
<b>Net Assets</b>				
Beginning of year	<u>53,627,129</u>	<u>40,680,372</u>	<u>94,307,501</u>	<u>87,398,385</u>
<b>End of year</b>	<u>\$ 51,312,898</u>	<u>\$ 38,558,713</u>	<u>\$ 89,871,611</u>	<u>\$ 94,307,501</u>

The accompanying notes are an integral part of these statements.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENT OF FUNCTIONAL EXPENSES

Years Ended June 30, 2020 With Summarized Information For 2019

	2020							Total	2019
	College	Campus Operations	Continuing And Public Education	Museum Operations	Auxiliary	Management And General	Fundraising		
<b>Personnel costs</b>									
Salaries	\$3,497,453	\$ 425,467	\$ 541,818	\$ 1,151,172	\$ 306,217	\$ 1,215,403	\$ 722,669	\$ 7,860,199	\$ 8,215,870
Benefits and taxes	<u>669,660</u>	<u>81,386</u>	<u>103,717</u>	<u>218,812</u>	<u>58,575</u>	<u>232,491</u>	<u>138,237</u>	<u>1,502,878</u>	<u>1,494,558</u>
Total Personnel costs	<u>4,167,113</u>	<u>506,853</u>	<u>645,535</u>	<u>1,369,984</u>	<u>364,792</u>	<u>1,447,894</u>	<u>860,906</u>	<u>9,363,077</u>	<u>9,710,428</u>
<b>Operating Expenses</b>									
Professional fees	179,204	839,041	50,546	11,044	54,896	587,738	34,765	1,757,234	1,607,777
Travel and entertainment	161,483	62	18,303	82,980	5,729	47,883	198,121	514,561	617,058
Printing and advertising	20,680	-	31,069	63,399	24,930	254,841	79,047	473,966	576,145
Supplies	328,457	5,314	101,319	211,677	51,607	166,158	74,776	939,308	1,022,356
Occupancy and repairs	7,316	978,790	347	4,146	85,388	8,168	-	1,084,155	1,077,924
Insurance	315	262,965	-	67,541	-	-	-	330,821	383,125
Interest expense	-	664,560	-	-	-	126,694	-	791,254	853,321
Bad debt expense	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,674</u>	<u>280,674</u>	<u>268,735</u>
<b>Total operating expenses</b>	<u>797,455</u>	<u>2,750,732</u>	<u>201,584</u>	<u>440,787</u>	<u>222,550</u>	<u>1,191,482</u>	<u>567,383</u>	<u>6,171,973</u>	<u>6,406,441</u>
<b>Total personnel costs and operating expenses</b>	<u>\$4,964,568</u>	<u>\$3,257,585</u>	<u>\$ 847,119</u>	<u>\$1,810,771</u>	<u>\$587,342</u>	<u>\$2,639,376</u>	<u>\$1,428,289</u>	<u>\$15,535,050</u>	<u>\$16,116,869</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 And 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (4,435,890)	\$ 6,909,116
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities</b>		
Depreciation	2,164,245	2,090,060
Net unrealized depreciation (appreciation) on long-term investments	415,399	(2,728,644)
Net realized (gains) losses on long-term investments	(417,939)	215,800
Net unrealized appreciation on outside perpetual trusts	(43,161)	(170,094)
Contributions restricted for endowment	(297,151)	(8,221,923)
Loss on interest rate swap termination	405,046	-
Loss on early extinguishment of deferred financing expenses	180,144	-
Accrued interest earned on note receivable	-	(1,463)
Forgiveness of note receivable	19,512	20,000
Bad debt expense, net of recapture	151,737	32,208
Change in market value of swap	539,735	255,123
Amortization of deferred bond cost	8,349	7,818
(Increase) decrease in assets		
Accounts receivable	(194,398)	28,805
Inventories	(23,807)	17,807
Pledges receivable	2,046,151	6,345,901
Prepaid expenses and other assets	127,137	(22,378)
Increase (decrease) in liabilities		
Accounts payable	(91,716)	(724,454)
Accrued expenses	200,197	(702,536)
Deferred revenue	(83,825)	(241,906)
<b>Net cash provided by operating activities</b>	<u>669,765</u>	<u>3,109,240</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(659,045)	(3,828,287)
Purchases of long-term investments	(9,398,623)	(16,796,350)
Proceeds from sale of long-term investments	<u>10,804,487</u>	<u>8,715,449</u>
<b>Net cash provided by (used for) investing activities</b>	<u>746,819</u>	<u>(11,909,188)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for endowment	297,151	8,221,923
Net proceeds from (repayments of) line of credit	(7,500,000)	1,145,000
Payment of interest rate swap termination fee	(405,046)	-
Proceeds from refundable advance	1,799,100	-
Payment of bond issuance costs	(308,396)	-
Issuance of long-term debt	25,000,000	-
Repayments of long-term debt	<u>(20,459,000)</u>	<u>(541,000)</u>
<b>Net cash (used for) provided by financing activities</b>	<u>(1,576,191)</u>	<u>8,825,923</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(159,607)	25,975
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>409,922</u>	<u>383,947</u>
<b>End of year</b>	<u>\$ 250,315</u>	<u>\$ 409,922</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	<u>\$ 866,460</u>	<u>\$ 821,191</u>

*The accompanying notes are an integral part of these statements.*



# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## *NOTES TO FINANCIAL STATEMENTS*

June 30, 2020 And 2019

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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 college and art museum in the United States. PAFA’s mission statement declares:

As the first art museum and college 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 college, 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 College of Fine Arts at PAFA offers four nationally and regionally accredited degree and certificate programs – a Bachelor of Fine Arts degree program, offering concentrations 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 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, 2020 And 2019

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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, 2020 And 2019

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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, 2020 and 2019, PAFA had donated accessions with approximate appraised values totaling \$455,180 and \$1,956,100, respectively. Collection items purchased but not capitalized totaled \$1,520,803 and \$1,379,849 during the years ended June 30, 2020 and 2019, respectively. In addition, PAFA received \$2,170 and \$33,780 for the sale of art works during the years ended June 30, 2020 and June 30, 2019, respectively.

### ***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 (2016 – 2018) or is expected to be taken in the current 2019 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 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 Trustees have designated as funds functioning as endowment for the purpose of administering the operations of the Brodsky Center (the "Center" – see **Note 11**). 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, 2020 And 2019

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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.

### **REVENUE RECOGNITION**

PAFA recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. Payment for tuition can be made in full or in installments. All amounts received prior to the commencement of the academic year, including enrollment deposits, are deferred to the applicable period. Scholarships provided to students are recorded as a reduction from the posted tuition rates at the time revenue is recognized. PAFA recognizes revenue from its summer programs during the summer of the fiscal year in which the majority of the program occurs.

PAFA recognizes contributions when cash, securities or other assets are received, upon receipt of an unconditional promise to give, or upon notification of a beneficial interest. Conditional contributions include donor-imposed conditions with one or more barriers that must be overcome before PAFA is entitled to the assets transferred or promised and there is a right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets. PAFA recognizes the contribution when the conditions are substantially met or explicitly waived. Unconditional contributions are classified as without donor restrictions unless there are donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are then 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, 2019, from which the summarized information was derived.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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### **NEW ACCOUNTING PRONOUNCEMENTS 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 a contribution (nonreciprocal transaction) or as an exchange (reciprocal) transaction and determining whether a transaction is conditional. This ASU was adopted by PAFA for the ended June 30, 2020 and did not have a material effect on the statements of financial position or results of operations.

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

In February 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, 2021. 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 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation.

### **(3) CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$2,412,604	\$3,624,085
One to five years	1,551,375	2,356,227
More than five years	<u>-</u>	<u>100,000</u>
Total pledges receivable	3,963,979	6,080,312
Less: discount to net present value	(45,421)	(115,603)
Allowance for doubtful accounts	<u>(225,054)</u>	<u>(164,125)</u>
Pledges receivable – long-term	<u>\$3,693,504</u>	<u>\$5,800,584</u>

Amounts due in the future have been discounted to their present values using discount rates ranging from 0.16% to 1.82%.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

### (4) INVESTMENTS

Investments consist of the following at June 30:

	<u>2020</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Money Market Funds	\$ 1,056,826	\$ -	\$ -	\$ 1,056,826
Common Stocks	12,172,160	4,782,597	-	16,954,757
Mutual Funds/Exchange Traded Funds	22,041,638	526,855	-	22,568,493
Pooled Investment Fund - Private Equity/Hedge Fund	<u>9,235,348</u>	<u>3,786,328</u>	<u>-</u>	<u>13,021,676</u>
	<u>\$ 44,505,972</u>	<u>\$ 9,095,780</u>	<u>\$ -</u>	<u>\$ 53,601,752</u>
	<u>2019</u>			
	<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	12,566,544	4,897,542	-	17,464,086
Mutual Funds/Exchange Traded Funds	22,275,816	1,018,967	-	23,294,783
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>

PAFA has various pooled investment funds, within BBH Wealth Strategies, LLC REMS Group Series, for \$13,021,676 and \$12,542,392 as of June 30, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, include without donor restricted investments of \$27,841,967 and \$28,664,124 respectively, which are invested separately from those investments for the endowment funds. Other investment income of \$654,603 and \$2,440,044 for the years ended June 30, 2020 and 2019, respectively, represents the net investment income on these without donor restricted investments.

The change in unrealized gain/(loss) was \$(415,399) and \$2,728,644 in 2020 and 2019, respectively.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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For the years ended June 30, 2020 and 2019, 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, 2020 Total</u>	<u>June 30, 2019 Total</u>
Interest and dividends (net of fees of \$116,674 in 2020 and \$76,755 in 2019, respectively)	\$ 507,195	\$ -	\$ 507,195	\$ 435,478
Net realized and unrealized gains/(losses)	<u>184,600</u>	<u>(553,291)</u>	<u>(368,691)</u>	<u>537,353</u>
Return on long-term investments	691,795	(553,291)	138,504	972,831
Investment return designated for current operations	<u>725,401</u>	<u>530,808</u>	<u>1,256,209</u>	<u>1,254,764</u>
Investment return in deficit of amounts designated for current operations	<u>\$ (33,606)</u>	<u>\$ (1,084,099)</u>	<u>\$ (1,117,705)</u>	<u>\$ (281,933)</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, 2020 And 2019

The summary of inputs used to value PAFA’s assets and liabilities that are carried at fair value as of June 30, 2020 and 2019 are as follows:

	2020			Total
	Level 1	Level 2	Level 3	
<b>Investments</b>				
Money Market Funds	\$ 1,056,826	\$ -	\$ -	\$ 1,056,826
Common Stocks	16,954,757	-	-	16,954,757
Mutual Funds	<u>22,568,493</u>	<u>-</u>	<u>-</u>	<u>22,568,493</u>
	<u>\$ 40,580,076</u>	<u>\$ -</u>	<u>\$ -</u>	40,580,076
Alternative Investments reported at Net Asset Value				<u>13,021,676</u>
				<u>\$ 53,601,752</u>
Beneficial Interest in Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,557,249</u>	<u>\$ 10,557,249</u>
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ (771,462)</u>	<u>\$ -</u>	<u>\$ (771,462)</u>
	2019			Total
	Level 1	Level 2	Level 3	
<b>Investments</b>				
Money Market Funds	\$ 1,703,815	\$ -	\$ -	\$ 1,703,815
Common Stocks	17,464,086	-	-	17,464,086
Mutual Funds	<u>23,294,783</u>	<u>-</u>	<u>-</u>	<u>23,294,783</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>

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, 2020 or 2019.

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

	Beneficial Interest In Perpetual Trust	
	2020	2019
Balance, July 1	\$ 10,514,088	\$ 10,343,994
Unrealized gains	<u>43,161</u>	<u>170,094</u>
Balance, June 30	<u>\$ 10,557,249</u>	<u>\$ 10,514,088</u>



# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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### (5) PROPERTY, BUILDINGS AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land, buildings and improvements	\$ 76,145,275	\$ 76,025,686
Furniture, fixtures and equipment	<u>5,428,101</u>	<u>5,372,571</u>
	81,573,376	81,398,257
Less accumulated depreciation	<u>(29,600,138)</u>	<u>(27,435,893)</u>
	51,973,238	53,962,364
Construction in progress	<u>488,082</u>	<u>4,156</u>
	<u>\$ 52,461,320</u>	<u>\$ 53,966,520</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, 2020, PAFA was unable to determine the extent of any remediation AROs that would be required in the future.

Depreciation expense was \$2,164,245 and \$2,090,060 for years ended June 30, 2020 and 2019, respectively.

### (6) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The beneficial interest in perpetual trusts of \$10,557,249 and \$10,514,088 at June 30, 2020 and 2019, 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) REFUNDABLE ADVANCE

On April 14, 2020, PAFA received a \$1,799,100 loan under the Small Business Administration’s (“SBA”) Payment Protection Program (the “PPP Loan”). PAFA considers this to be a conditional contribution and it expects to meet the criteria for loan forgiveness. PAFA considers the incurrence of eligible expenses and the acceptance of its application for forgiveness by the SBA to be barriers in the PPP Loan agreement and as such, will recognize contribution income when these conditions are substantially met. If such conditions are not met, PAFA is required to repay the PPP Loan in two years from the date of the agreement at a 1% interest annual interest rate.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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### (8) 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% (2.75% and 4.10% as of June 30, 2020 and 2019, respectively). At June 30, 2020 and 2019, the outstanding balance on the lines of credit was \$1,700,000 and \$9,200,000, respectively. Interest expense on the lines of credit was \$306,548 and \$317,766 for the years ended June 30, 2020 and 2019, respectively.

In addition, PAFA opened a revolving line of credit for \$1,500,000 from the financial institution who purchased the Revenue Bonds, Series 2020A of which PAFA borrowed the Bond proceeds (see Note 9). The line of credit of \$1,500,000 for working capital is collateralized by certain property owned by PAFA and expires on December 31, 2021. Interest on the line of credit is payable monthly at the LIBOR rate plus 2.50%, however, at no time shall the rate be below 4.25%. At June 30, 2020, there was no outstanding balance on the line of credit. PAFA is subject to the same financial covenants for the line of credit as those disclosed for the Revenue Bond, Series 2020A debt.

### (9) LONG-TERM DEBT

On June 17, 2020, PAFA borrowed \$25,000,000 through the issuance of tax-exempt Revenue Bonds, Series 2020A from the Philadelphia Authority for Industrial Development (the “**Authority**”), the proceeds of which were used to refinance its 2015A Bonds, a portion of the outstanding credit lines with Haverford Trust, and to finance the costs of issuance. The Bryn Mawr Trust Company purchased the Bonds from the Authority.

The tax-exempt Bonds will mature on June 17, 2035 and may be prepaid in whole or in part at any time. 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 2.50% multiplied by seventy-eight percent (effective rate as of June 30, 2020 was 2.08%). Prior to the issuance of the 2020 Bonds on June 17, 2020, the floating rate per annum on the 2015 Bonds were the sum of LIBOR plus 1.30% multiplied by sixty-seven percent (effective rate as of June 30, 2019 was 2.51%). Interest is paid monthly on the outstanding principal of the 2020 Bonds. Bonds payable of \$24,692,460 and \$20,271,363 as of June 30, 2020 and 2019 reflects bonds payable of \$25,000,000 and \$20,459,000 net of unamortized deferred financing expenses of \$307,540 and \$187,637, respectively. Deferred financing expenses are being amortized on a straight-line basis over the life of the Bonds. In conjunction with the repayment of 2015 Bonds, the remaining deferred bond issuance cost of \$180,144 associated with those Bonds was written off and is included as loss on early extinguishment of deferred financing expenses for the year ended June 30, 2020.

In connection with the issuance of the 2020 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 2.75% on a notional balance of \$20,000,000 while receiving a variable interest rate equal to the rate paid for the Bond. Prior to the issuance of the 2020 Bonds on June 17, 2020, the swap agreement in effect required 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 2015 Bond. The purpose of the interest rate swap agreement currently in effect is to hedge against increases in the variable interest rates on the 2020 Bonds. The market value of the interest rate swaps was \$771,462 and \$231,727 in favor of the bank as of June 30, 2020 and 2019, respectively, and is included in other liabilities in the statements of financial position. As a result of the refinancing of the 2015 Bonds, PAFA incurred an interest rate swap termination fee of \$405,046 for the year ended June 30, 2020 which is reflected as a loss on termination of interest rate swap within non-operating revenues, expenses and gains/losses in the statement of activities and changes in net assets.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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PAFA must maintain certain financial covenants in accordance with the 2020 Bond agreement:

- a. Maintain unencumbered liquidity at least equal to \$27,000,000 tested semi-annually
- b. Maintain net assets without donor restriction at least equal to \$32,000,000 tested semi-annually

Total interest expense on the tax-exempt bonds, 2020 and 2015 issues, was \$484,705 and \$535,555 for the years ended June 30, 2020 and 2019, respectively.

Redemption payments required under the Bond Agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ -
2022	-
2023	-
2024	539,073
2025	556,193
Thereafter	<u>23,904,734</u>
Bond Payable at June 30, 2020, gross	25,000,000
Deferred Financing Expenses	<u>(307,540)</u>
Bond Payable at June 30, 2020, Net	<u>\$ 24,692,460</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	<u>\$ 20,271,363</u>

### (10) 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, 2020 and 2019, PAFA contributed approximately \$186,000 and \$198,000, 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.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

### (11) NET ASSETS

Net assets with a donor restriction at June 30, 2020 and 2019 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
<b>Subject to expenditure for a specified purpose:</b>		
Building fund	\$ -	\$ 25,000
Campus Master Plan – Capital Campaign, net of discount	-	890,307
Major gifts-time restriction/purpose	1,386,228	1,456,710
Scholarships	<u>850,540</u>	<u>1,242,624</u>
	<u>2,236,768</u>	<u>3,614,641</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	1,031,868	930,868
College scholarships and prizes	16,369,196	16,173,044
College – other	1,309,979	1,309,979
Beneficial interest in perpetual trusts	<u>10,557,249</u>	<u>10,514,088</u>
	<u>37,682,389</u>	<u>37,342,076</u>
Accumulated endowment income	<u>(1,360,444)</u>	<u>(276,345)</u>
Total net assets with donor restrictions	<u>\$ 38,558,713</u>	<u>\$ 40,680,372</u>

Net assets were released from donor restrictions by satisfying the restricted purpose during the year ended June 30, 2020, as follows:

Purpose and time restrictions accomplished:

	<u>2020</u>
Acquisition of art	\$ 148,150
Building fund	25,000
Campus Master Plan – Capital Campaign	2,998,116
Major gifts-time restriction/purpose	114,413
Scholarships	<u>774,742</u>
	<u>\$ 4,060,421</u>

Endowment net asset composition by type of fund as of June 30, 2020 and 2019:

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds			
perpetual in duration –			
Original gift amount	\$ -	\$ 37,682,389	\$ 37,682,389
Accumulated endowment income	-	(1,360,444)	(1,360,444)
Funds functioning as endowment funds	<u>774,418</u>	<u>-</u>	<u>774,418</u>
Total Fund	<u>\$ 774,418</u>	<u>\$ 36,321,945</u>	<u>\$ 37,096,363</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

	<u>2019</u>		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</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>

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.

PAFA maintains a quasi-endowment fund known as the Brodsky Center (the "Center"). The Center was established to promote the art of printmaking through the use of its printing equipment. In connection with receiving the quasi-endowment funds, 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 \$774,418 and \$808,024 as of June 30, 2020 and 2019, 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 generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2020 and 2019, restricted endowment funds had deficiencies which amounted to \$1,360,444 and \$358,270, respectively. These deficiencies resulted primarily from unfavorable market fluctuations in the current year. The market value and cost basis associated with endowments with deficiencies was \$25,764,696 and \$27,125,140 as of June 30, 2020 and \$8,477,173 and \$8,835,443 as of June 30, 2019, respectively.

Changes in endowment net assets for the years ended June 30, 2020 and 2019:

	<u>2020</u>		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Endowment net assets, beginning of year	\$ 808,024	\$ 37,065,731	\$ 37,873,755
Investment income, net	507,195	-	507,195
Realized and unrealized gains/(losses)	184,600	(553,291)	(368,691)
Contributions	-	297,151	297,151
Endowment income designated for current operations	(725,401)	(530,808)	(1,256,209)
Change in beneficial interest in perpetual trust	<u>-</u>	<u>43,161</u>	<u>43,161</u>
	<u>\$ 774,418</u>	<u>\$ 36,321,944</u>	<u>\$ 37,096,362</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

	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>

### (12) 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 \$25,760,000 and \$26,341,000 as of June 30, 2020 and 2019, respectively. PAFA was charged investment fees by the investment company. The fee was approximately for \$117,000 and \$77,000 for the years ended June 30, 2020 and 2019, respectively. In addition, this Trust Company provides two lines of credit for PAFA; interest expense during the years ended June 30, 2020 and 2019 for these lines of credit was approximately \$306,500 and \$317,800, 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, 2020, the principal balance of \$200,000 has been forgiven. The forgiveness of the final principal installment of \$20,000 of the note receivable is reflected in other loss within non-operating revenues in the statement of activities and changes in net assets. However, a balance of \$66,425 for accrued interest from the note receivable is reflected in other assets as of June 30, 2020 and is to be forgiven over a three-year period contingent on the President's continuing employment. The President has resigned effective November 20, 2020. In connection with the President's resignation, PAFA has agreed to forgive one year of accrued interest in the amount of \$22,142. The remaining accrued interest of \$44,283 will be repaid by the President upon his resignation.
- ◆ 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 \$836,000 and \$1,288,000 as of June 30, 2020 and 2019, respectively, in pledges for capital campaign and other purposes from several board members and their foundations.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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### (13) 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. The future minimum rental payments below reflects that PAFA will not exercise the termination right within its students housing apartment lease that matures July 31, 2023. In accordance with a lease addendum dated July 1, 2020, PAFA received an abatement of rent for five months, April through August 2020, with PAFA resuming rent payments on September 1, 2020. The effect of the abatement reduced rent payments by approximately \$169,000 for the year ended June 30, 2020.

Commencing on September 1, 2020, PAFA and the landlord agreed to reduce the space being rented through the Spring 2021 semester at which time the rent per the lease agreement will resume. The two months of rent abatement and the reduction in space through the Spring semester 2021 will reduce rent payments by approximately \$287,000 for the year ended June 30, 2021.

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

2021	\$ 467,746
2022	713,520
2023	720,098
2024	<u>59,898</u>
Total	<u>\$1,961,262</u>

Rent expense related to these leases was approximately \$648,900 and \$759,400 for the years ended June 30, 2020 and 2019, respectively.

#### ***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.

#### ***CORONAVIRUS***

In early 2020, an outbreak of a novel strain of coronavirus (COVID19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The current operating environment is changing rapidly. The extent of impact that the COVID-19 pandemic will have on the financial performance of the Academy's investments and operations is not reasonably estimable at this time.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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### (14) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects PAFA's financial assets and liquidity resources available as of June 30, 2020 and 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>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 250,315	\$ 409,922
Investments	53,601,752	55,005,076
Accounts receivable	229,691	126,101
Pledge receivable current	<u>2,412,604</u>	<u>3,624,085</u>
Total financial assets available within one year	56,494,362	59,165,184
Estimated endowment income designated for operations	3,234,000	2,368,000
Assets restricted/designated as to use:		
Endowment funds without donor restriction	(774,418)	(808,024)
Donor restricted endowment funds	(25,764,696)	(26,551,643)
Other donor restricted funds	<u>(2,236,768)</u>	<u>(3,614,641)</u>
Total financial assets and liquidity resources available within one year	<u>\$ 30,952,480</u>	<u>\$ 30,558,876</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 two working capital lines of credit with two banks for \$5,000,000 in total which can be drawn upon as needed to manage cash flows.

### (15) SUBSEQUENT EVENTS

Subsequent events after the statement of financial position date through the date that the financial statements were available for issuance, December 10, 2020 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.