

# **PENNSYLVANIA ACADEMY OF THE FINE ARTS**

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

**JUNE 30, 2022**

# 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**

### **Opinion**

We have audited the accompanying financial statements of the Pennsylvania Academy of the Fine Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Academy of the Fine Arts as of June 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pennsylvania Academy of the Fine Arts and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pennsylvania Academy of the Fine Arts' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pennsylvania Academy of the Fine Arts' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pennsylvania Academy of the Fine Arts' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Pennsylvania Academy of the Fine Arts' 2021 financial statements, and our report dated December 17, 2021, 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, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
November 17, 2022**

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENTS OF FINANCIAL POSITION

June 30, 2022 And 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 871,007	\$ 863,458
Accounts receivable, net	12,762	206,869
Prepaid expenses	353,882	449,124
Merchandise held for resale	112,982	117,287
Pledges receivable <i>(Notes 3 and 12)</i>	1,103,935	2,203,104
Other assets <i>(Notes 4 and 9)</i>	2,818,962	652,419
Operating lease right of use asset	275,633	965,298
Long term investments <i>(Notes 4 and 8)</i>	51,659,922	63,915,173
Property, buildings and equipment <i>(Note 5)</i>	49,111,490	50,741,142
Beneficial interest in perpetual trusts <i>(Notes 4 and 6)</i>	<u>11,458,587</u>	<u>13,496,713</u>
<b>Total Assets</b>	<b><u>\$ 117,779,162</u></b>	<b><u>\$ 133,610,587</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Refundable advance <i>(Note 7)</i>	\$ -	\$ 1,596,447
Accounts payable	913,456	922,240
Accrued expenses	314,810	643,212
Deferred revenue	229,960	867,455
Operating lease liability	275,633	965,298
Bond payable <i>(Note 9)</i>	<u>24,733,579</u>	<u>24,713,020</u>
<b>Total Liabilities</b>	<b><u>26,467,438</u></b>	<b><u>29,707,672</u></b>
<b>NET ASSETS</b>		
Without donor restriction		
Undesignated	50,010,454	56,032,618
Board-designated <i>(Note 11)</i>	<u>752,772</u>	<u>923,977</u>
Total without donor restriction	50,763,226	56,956,595
With donor restriction <i>(Note 11)</i>	<u>40,548,498</u>	<u>46,946,320</u>
<b>Total Net Assets</b>	<b><u>91,311,724</u></b>	<b><u>103,902,915</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 117,779,162</u></b>	<b><u>\$ 133,610,587</u></b>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2022 With Summarized Information For 2021

	Without Donor Restrictions	With Donor Restrictions	TOTALS	
			2022	2021
<b>Program Revenues, Support Revenue and Investment Income</b>				
Tuition and fees, net of scholarships	\$ 2,410,819	\$ -	\$ 2,410,819	\$ 2,807,248
Continuing and public education	583,416	-	583,416	579,126
Museum operations	201,620	-	201,620	34,022
Auxiliary operations, net of costs of sales	882,448	-	882,448	287,752
Gifts and Grants	2,941,257	3,441,582	6,382,839	6,117,403
Investment income				
Endowment income designated for operations <i>(Note 4)</i>	858,210	1,314,473	2,172,683	1,666,334
Income from outside trusts	487,588	-	487,588	471,075
PPP loan forgiveness	1,596,447	-	1,596,447	1,799,100
Other	2,314	-	2,314	743
Net assets released from restrictions <i>(Note 11)</i>	<u>3,730,199</u>	<u>(3,730,199)</u>	<u>-</u>	<u>-</u>
<b>Total operating program revenues, support revenue and investment income</b>	<u>13,694,318</u>	<u>1,025,856</u>	<u>14,720,174</u>	<u>13,762,803</u>
<b>Program and Support Expenses</b>				
<b>Program Expenses</b>				
College	4,063,978	-	4,063,978	3,882,411
Campus operations	3,613,592	-	3,613,592	3,047,816
Continuing and public education	853,338	-	853,338	925,860
Museum operations	1,411,426	-	1,411,426	1,435,944
Auxiliary operations	<u>389,063</u>	<u>-</u>	<u>389,063</u>	<u>229,026</u>
<b>Total program expenses</b>	<u>10,331,397</u>	<u>-</u>	<u>10,331,397</u>	<u>9,521,057</u>
<b>Support Expenses</b>				
Management and general	2,624,979	-	2,624,979	2,901,729
Fundraising	<u>1,340,356</u>	<u>-</u>	<u>1,340,356</u>	<u>1,177,222</u>
<b>Total support expenses</b>	<u>3,965,335</u>	<u>-</u>	<u>3,965,335</u>	<u>4,078,951</u>
<b>Total program and support expenses</b>	<u>14,296,732</u>	<u>-</u>	<u>14,296,732</u>	<u>13,600,008</u>
<b>Change in net assets before depreciation and amortization, non-operating revenues, expenses and gains (losses)</b>	<u>(602,414)</u>	<u>1,025,856</u>	<u>423,442</u>	<u>162,795</u>
<b>Non-Operating Revenues, Expenses and Gains/(Losses)</b>				
Depreciation and amortization	(2,009,674)	-	(2,009,674)	(2,108,725)
Investment return in excess (deficit) of amount designated for current operations <i>(Notes 4 and 11)</i>	(171,205)	(5,385,552)	(5,556,757)	5,720,593
Other investment income (loss) <i>(Note 4)</i>	(5,110,760)	-	(5,110,760)	6,890,934
Change in beneficial interest in perpetual trusts <i>(Notes 4 and 11)</i>	-	(2,038,126)	(2,038,126)	2,939,464
Change in market value of interest rate swap <i>(Note 9)</i>	2,166,543	-	2,166,543	1,423,881
Other gain	-	-	-	78,344
Proceeds from art sale	50,000	-	50,000	-
Collection items purchased not capitalized	<u>(515,859)</u>	<u>-</u>	<u>(515,859)</u>	<u>(1,075,982)</u>
<b>Total depreciation and amortization, non-operating revenue, expenses and gains/(losses)</b>	<u>(5,590,955)</u>	<u>(7,423,678)</u>	<u>(13,014,633)</u>	<u>13,868,509</u>
<b>Change in net assets</b>	<u>(6,193,369)</u>	<u>(6,397,822)</u>	<u>(12,591,191)</u>	<u>14,031,304</u>
<b>Net Assets</b>				
Beginning of year	<u>56,956,595</u>	<u>46,946,320</u>	<u>103,902,915</u>	<u>89,871,611</u>
<b>End of year</b>	<u>\$50,763,226</u>	<u>\$40,548,498</u>	<u>\$ 91,311,724</u>	<u>\$ 103,902,915</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, 2022 With Summarized Information For 2021

	2022							Total	2021
	College	Campus Operations	Continuing And Public Education	Museum Operations	Auxiliary	Management And General	Fundraising		
<b>Personnel costs</b>									
Salaries	\$2,925,069	\$ 285,260	\$ 610,873	\$ 744,072	\$191,084	\$1,286,334	\$ 722,457	\$ 6,765,149	\$ 6,839,348
Benefits and taxes	<u>580,762</u>	<u>56,368</u>	<u>121,831</u>	<u>144,520</u>	<u>33,952</u>	<u>247,419</u>	<u>140,793</u>	<u>1,325,645</u>	<u>1,484,060</u>
Total Personnel costs	<u>3,505,831</u>	<u>341,628</u>	<u>732,704</u>	<u>888,592</u>	<u>225,036</u>	<u>1,533,753</u>	<u>863,250</u>	<u>8,090,794</u>	<u>8,323,408</u>
<b>Operating Expenses</b>									
Professional fees	301,763	1,206,011	13,560	36,048	122,960	696,176	18,173	2,394,691	2,062,946
Travel and entertainment	120,306	1,568	32,623	25,059	2,394	117,391	233,030	532,371	170,552
Printing and advertising	8,486	-	3,859	150,762	14,300	182,651	83,271	443,329	326,418
Supplies	116,787	78,232	70,592	194,805	20,521	95,008	40,598	616,543	534,397
Occupancy and repairs	9,805	1,015,831	-	15,376	3,852	-	2,034	1,046,898	860,558
Insurance	1,000	299,972	-	100,784	-	-	-	401,756	378,824
Interest expense	-	670,350	-	-	-	-	-	670,350	692,905
Bad debt expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>250,000</u>
<b>Total operating expenses</b>	<u>558,147</u>	<u>3,271,964</u>	<u>120,634</u>	<u>522,834</u>	<u>164,027</u>	<u>1,091,226</u>	<u>477,106</u>	<u>6,205,938</u>	<u>5,276,600</u>
<b>Total personnel costs and operating expenses</b>	<u>\$4,063,978</u>	<u>\$3,613,592</u>	<u>\$ 853,338</u>	<u>\$1,411,426</u>	<u>\$389,063</u>	<u>\$2,624,979</u>	<u>\$1,340,356</u>	<u>\$14,296,732</u>	<u>\$13,600,008</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 And 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$(12,591,191)	\$ 14,031,304
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities</b>		
Depreciation	1,989,114	2,088,165
Net unrealized depreciation (appreciation) on long-term investments	11,837,474	(10,705,080)
Net realized gains on long-term investments	(2,643,180)	(2,834,318)
Net unrealized depreciation (appreciation) on outside perpetual trusts	2,038,126	(2,939,464)
Contributions restricted for endowment	(942,626)	(378,400)
Amortization of right of use asset	458,088	363,573
Forgiveness of note receivable	-	22,142
Bad debt expense, net of recapture	100,000	250,000
Change in market value of swap	(2,166,543)	(1,423,881)
Amortization of deferred bond cost	20,559	20,560
(Increase) decrease in assets		
Accounts receivable	194,107	(47,178)
Inventories	4,305	71,763
Pledges receivable	999,169	1,310,400
Prepaid expenses and other assets	95,242	(168,784)
Increase (decrease) in liabilities		
Accounts payable	(8,784)	248,631
Accrued expenses	(328,402)	(129,410)
Deferred revenue	(637,495)	(181,327)
<b>Net cash used for operating activities</b>	<u>(1,582,037)</u>	<u>(401,304)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(359,462)	(367,987)
Repayment of note receivable	-	44,283
Purchases of long-term investments	(8,747,741)	(7,751,506)
Proceeds from sale of long-term investments	<u>11,808,698</u>	<u>10,977,483</u>
<b>Net cash provided by investing activities</b>	<u>2,701,495</u>	<u>2,902,273</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for endowment	942,626	378,400
Net proceeds from (repayments of) line of credit	-	(1,700,000)
Interest on lease liability	10,936	20,240
Finance lease liability payments	(469,024)	(383,813)
Proceeds from refundable advance	-	1,596,447
Forgiveness of PPP loan	(1,596,447)	(1,799,100)
<b>Net cash used for financing activities</b>	<u>(1,111,909)</u>	<u>(1,887,826)</u>
<b>Net increase in cash and cash equivalents</b>	7,549	613,143
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>863,458</u>	<u>250,315</u>
<b>End of year</b>	<u>\$ 871,007</u>	<u>\$ 863,458</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	<u>\$ 663,615</u>	<u>\$ 692,905</u>
Right-of-use – asset in exchange for new financing lease liability	<u>\$ -</u>	<u>\$ 1,328,871</u>
Right-of-use – reassessment for lease modification	<u>\$ 227,594</u>	<u>\$ -</u>

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



# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## *NOTES TO FINANCIAL STATEMENTS*

June 30, 2022 And 2021

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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, 2022 And 2021

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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, 2022 And 2021

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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, 2022 and 2021, PAFA had donated accessions with approximate appraised values totaling \$97,250 and \$283,700, respectively. Collection items purchased but not capitalized totaled \$515,859 and \$1,075,982 during the years ended June 30, 2022 and 2021, respectively. In addition, PAFA received \$50,000 for the sale of art works during the year ended June 30, 2022. There was no sale of art works during the year ended June 30, 2021.

### ***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 (2018 – 2020) or is expected to be taken in the current 2021 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 Trustee 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, 2022 And 2021

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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, 2021, from which the summarized information was derived.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

### RECLASSIFICATION

Certain reclassifications were made to the 2021 financial statements to conform to the 2022 financial statement presentation.

### (3) CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 1,068,540	\$1,698,512
One to five years	<u>300,000</u>	<u>775,833</u>
Total pledges receivable	1,368,540	2,474,345
Less: discount to net present value	(6,645)	(16,448)
Allowance for doubtful accounts	<u>(257,960)</u>	<u>(254,793)</u>
Pledges receivable – long-term	<u>\$ 1,103,935</u>	<u>\$2,203,104</u>

Amounts due in the future have been discounted to their present values using discount rates ranging from 0.07% to 1.82%.

### (4) INVESTMENTS

Investments consist of the following at June 30:

	<u>2022</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Money Market Funds	\$ 2,297,663	\$ -	\$ -	\$ 2,297,663
Common Stocks	12,225,663	5,726,486	-	17,952,149
Mutual Funds/Exchange Traded Funds	20,938,679	-	(170,123)	20,768,556
Pooled Investment Fund - Private Equity/Hedge Fund	<u>8,234,531</u>	<u>2,407,023</u>	<u>-</u>	<u>10,641,554</u>
	<u>\$43,696,536</u>	<u>\$8,133,509</u>	<u>\$(170,123)</u>	<u>\$51,659,922</u>
	<u>2021</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Money Market Funds	\$ 1,627,115	\$ -	\$ -	\$ 1,627,115
Common Stocks	11,950,027	8,594,833	-	20,544,860
Mutual Funds/Exchange Traded Funds	19,483,871	3,687,379	-	23,171,250
Pooled Investment Fund - Private Equity/Hedge Fund	<u>11,053,300</u>	<u>7,518,648</u>	<u>-</u>	<u>18,571,948</u>
	<u>\$44,114,313</u>	<u>\$19,800,860</u>	<u>\$ -</u>	<u>\$63,915,173</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

PAFA has various pooled investment funds, within BBH Wealth Strategies, LLC REMS Group Series, for \$10,641,554 and \$18,571,948 as of June 30, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, include without donor restricted investments of \$23,583,206 and \$31,580,175 respectively, which are invested separately from those investments for the endowment funds. Other investment income / (loss) of \$(5,110,760) and \$6,890,934 for the years ended June 30, 2022 and 2021, respectively, represents the net investment income on these without donor restricted investments.

The change in unrealized gain/(loss) was \$(11,837,474) and \$10,705,080 in 2022 and 2021, respectively.

For the years ended June 30, 2022 and 2021, the Board approved a 10% spending rate, respectively, to its net assets in accordance with the Commonwealth of Pennsylvania's regulations which allowed up to 10% to be spent in endowment assets as a result of the COVID-19 pandemic restrictions. The spending rate is calculated 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, 2022 Total</u>	<u>June 30, 2021 Total</u>
Interest and dividends (net of fees of \$132,305 in 2022 and \$121,644 in 2021, respectively)	\$ 12,758	\$ 523,192	\$ 535,950	\$ 482,953
Net realized and unrealized gains/(losses)	<u>(105,621)</u>	<u>(3,814,403)</u>	<u>(3,920,024)</u>	<u>6,903,974</u>
Return on long-term investments	(92,863)	(3,291,211)	(3,384,074)	7,386,927
Investment return designated for current operations*	<u>78,342</u>	<u>2,094,341</u>	<u>2,172,683</u>	<u>1,666,334</u>
Investment return in excess(deficit) of amounts designated for current operations	<u>\$(171,205)</u>	<u>\$(5,385,552)</u>	<u>\$(5,556,757)</u>	<u>\$5,720,593</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>June 30, 2022 Total</u>
* Reconciliation to Statement of Activities			
Investment return designated for current operations per above	\$ 78,342	\$ 2,094,341	\$ 2,172,683
Investment return – permanent endowment income without donor restriction as to use	<u>779,868</u>	<u>(779,868)</u>	<u>-</u>
Per Statement of Activities – investment return	<u>\$ 858,210</u>	<u>\$ 1,314,473</u>	<u>\$ 2,172,683</u>



# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

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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, 2022 or 2021.

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><u>2022</u></b>	<b><u>2021</u></b>
Balance, July 1	\$ 13,496,713	\$ 10,557,249
Unrealized gains / (losses)	<u>(2,038,126)</u>	<u>2,939,464</u>
Balance, June 30	<b><u>\$11,458,587</u></b>	<b><u>\$13,496,713</u></b>

### (5) PROPERTY, BUILDINGS AND EQUIPMENT

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

	<b><u>2022</u></b>	<b><u>2021</u></b>
Land, buildings and improvements	\$ 77,111,598	\$ 76,965,560
Furniture, fixtures and equipment	<u>5,600,479</u>	<u>5,463,884</u>
	82,712,077	82,429,444
Less accumulated depreciation	<u>(33,603,508)</u>	<u>(31,688,302)</u>
	49,108,569	50,741,142
Construction in progress	<u>2,921</u>	<u>-</u>
	<b><u>\$ 49,111,490</u></b>	<b><u>\$ 50,741,142</u></b>

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, 2022, PAFA was unable to determine the extent of any remediation AROs that would be required in the future.

Depreciation expense was \$1,989,114 and \$2,088,165 for years ended June 30, 2022 and 2021, respectively.

### (6) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The beneficial interest in perpetual trusts of \$11,458,587 and \$13,496,713 at June 30, 2022 and 2021, 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.



# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

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### (7) COVID-19 AND REFUNDABLE ADVANCE/PAYROLL PROTECTION PROGRAM

In December 2019, a novel strain of the coronavirus (“COVID-19”) was reported in China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern”. This outbreak has affected virtually every industry and has created volatility in stock markets throughout the world. Many federal and state governments have implemented numerous restrictions, mandated various closures and quarantine requirements in connection with the COVID-19 outbreak. The extent of the impact of COVID-19 on PAFA’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact on PAFA’s funders, donors, employees and vendors, all of which are uncertain and cannot be predicted.

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 considered this to be a conditional contribution as it expected to meet the criteria for loan forgiveness upon incurring eligible expenditures and when its application for forgiveness is accepted by the SBA. PAFA considered the incurrence of eligible expenses and the acceptance of its application for forgiveness to be barriers in the PPP Loan agreement and as such, would recognize contribution income when these conditions were substantially met. As of June 30, 2020, PAFA had recorded \$1,799,100 as a refundable advance. During the year ended June 30, 2021, PAFA had met all conditions of the program and the loan was forgiven on June 26, 2021. As such, the loan was recognized in the Statement of Activities and Changes in Net Assets as PPP loan forgiveness in fiscal year 2021.

In March 2021, PAFA received a \$1,596,447 loan under the Small Business Administration’s (“SBA”) Paycheck Protection Program Second Draw Loan (“PPP Second Draw Loan”) under the Consolidated Appropriations Act 2021, Additional Coronavirus Response and Relief Provisions. PPP Second Draw Loans are eligible for forgiveness if PAFA incurs qualifying expenses over a period of time not to exceed 24 weeks. The period of time in which qualifying expenses may be incurred commences upon receipt of the loan. Any portion of the loan not forgiven is payable over a 5-year period at an interest rate of 1%. PAFA considered the incurrence of eligible expenses and the acceptance of its application for forgiveness to be barriers in the PPP Second Draw Loan agreement and as such, recognize contribution income when these conditions were met. As of June 30, 2021, PAFA had recorded \$1,596,447 as a refundable advance for the PPP Second Draw Loan. During the year ended June 30, 2022, PAFA had met all conditions of the program and the loan was forgiven on November 18, 2021. As such, the loan was recognized in the Statement of Activities and Changes in Net Assets as PPP loan forgiveness in fiscal year 2022.

### (8) LINES OF CREDIT

PAFA has two revolving lines of credit for \$10,000,000. The lines of credit, \$5,000,000 for capital projects and \$5,000,000 for working capital, are collateralized by certain marketable securities held by a financial institution and expire July 31, 2023. Interest on the line of credit is payable monthly at a variable percentage based upon the Wall Street Journal Prime Rate minus 1.40% (3.35% as of June 30, 2022 and 2.75% as of June 30, 2021, respectively). There was no balance outstanding on the lines of credit as of June 30, 2022 and June 30, 2021. During the year ended June 30, 2022, the Academy did not utilize its lines of credit. Interest expense on the lines of credit was \$31,046 for the year ended June 30, 2021.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

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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, 2022. Interest on the line of credit is payable monthly at the Wall Street Journal Prime Rate, however, at no time shall the rate be below 4.25%. At June 30, 2022 and 2021, 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, 2022 and 2021 was 2.78% and 2.02% respectively). Interest is paid monthly on the outstanding principal of the 2020 Bonds. Bonds payable of \$24,733,579 and \$24,713,020 as of June 30, 2022 and 2021 reflects bonds payable of \$25,000,000 and \$25,000,000, net of unamortized deferred financing expenses of \$266,421 and \$286,980, 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 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 \$2,818,962 and \$652,419 in favor of PAFA as of June 30, 2022 and 2021, respectively, and is included in other assets in the statements of financial position.

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 \$670,350 and \$661,859 for the years ended June 30, 2022 and 2021, respectively.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

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Redemption payments required under the Bond Agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 45,305
2024	540,309
2025	557,468
2026	573,211
2027	589,399
Thereafter	<u>22,694,308</u>
Bond Payable at June 30, 2022, gross	25,000,000
Deferred Financing Expenses	<u>(266,421)</u>
Bond Payable at June 30, 2022, Net	<u>\$ 24,733,579</u>
Bond Payable at June 30, 2021, gross	25,000,000
Deferred Financing Expenses	<u>(286,980)</u>
Bond Payable at June 30, 2021, Net	<u>\$ 24,713,020</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, 2022 and 2021, PAFA contributed approximately \$180,000 and \$181,000 respectively, to the plan.

PAFA also has a defined benefit pension plan covering one former employee. Benefits under the plan are based on the employee's 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, 2022 And 2021

### (11) NET ASSETS

Net assets with a donor restriction at June 30, 2022 and 2021 are available for the following purposes:

	<u>2022</u>	<u>2021</u>
<b>Subject to expenditure for a specified purpose:</b>		
Major gifts-time restriction/purpose	\$ 1,765,968	\$ 1,613,066
Scholarships	<u>-</u>	<u>122,411</u>
	<u>1,765,968</u>	<u>1,735,477</u>
<b>Perpetual in nature:</b>		
Operations	4,684,635	4,364,635
Art acquisitions and conservation	3,349,691	3,349,691
Museum operations	2,646,639	2,131,639
College scholarships and prizes	16,555,359	16,394,984
College – other	1,309,979	1,309,979
Beneficial interest in perpetual trusts	<u>11,458,587</u>	<u>13,496,713</u>
	<u>40,004,890</u>	<u>41,047,641</u>
Accumulated endowment income(loss)	<u>(1,222,360)</u>	<u>4,163,202</u>
Total net assets with donor restrictions	<u>\$40,548,498</u>	<u>\$46,946,320</u>

Net assets were released from donor restrictions by satisfying the restricted purpose during the year ended June 30, 2022, as follows:

Purpose and time restrictions accomplished:

	<u>2022</u>
Acquisition of art	\$ 340,947
Major gifts-time restriction/purpose	1,905,901
Scholarships	<u>1,483,351</u>
	<u>\$3,730,199</u>

Endowment net asset composition by type of fund as of June 30, 2022 and 2021:

	<u>2022</u>		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Donor restricted endowment funds			
perpetual in duration –			
Original gift amount	\$ -	\$40,004,890	\$40,004,890
Accumulated endowment income(loss)	-	(1,222,360)	(1,222,360)
Funds functioning as endowment funds	<u>752,772</u>	<u>-</u>	<u>752,772</u>
Total Fund	<u>\$752,772</u>	<u>\$38,782,530</u>	<u>\$39,535,302</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

	2021		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Donor restricted endowment funds			
perpetual in duration –			
Original gift amount	\$ -	\$ 41,047,641	\$ 41,047,641
Accumulated endowment income	-	4,163,202	4,163,202
Funds functioning as endowment funds	<u>923,977</u>	<u>-</u>	<u>923,977</u>
Total Fund	<u>\$ 923,977</u>	<u>\$ 45,210,843</u>	<u>\$ 46,134,820</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 the years ended June 30, 2022 and 2021, the Commonwealth of Pennsylvania allowed up to 10% to be spent on endowment assets as a result of the COVID-19 pandemic restrictions.

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 \$752,772 and \$923,977 as of June 30, 2022 and 2021, 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, 2022, restricted endowment funds had deficiencies which amounted to \$1,429,359. These deficiencies resulted primarily from unfavorable market fluctuations in the current year. The market value and cost basis associated with endowments with deficiencies was \$19,126,943 and \$20,556,302 as of June 30, 2022. As of June 30, 2021, no restricted endowment funds had deficiencies.

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

Changes in endowment net assets for the years ended June 30, 2022 and 2021:

	2022		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 923,977	\$ 45,210,843	\$ 46,134,820
Investment income, net	12,758	523,192	535,950
Realized and unrealized losses	(105,621)	(3,814,403)	(3,920,024)
Contributions	-	995,365	995,365
Endowment income designated for current operations	(78,342)	(2,094,341)	(2,172,683)
Change in beneficial interest in perpetual trust	-	(2,038,126)	(2,038,126)
	<u>\$ 752,772</u>	<u>\$ 38,782,530</u>	<u>\$ 39,535,302</u>

  

	2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 774,418	\$ 36,321,945	\$ 37,096,363
Investment income, net	482,953	-	482,953
Realized and unrealized gains	385,296	6,518,678	6,903,974
Contributions	-	378,400	378,400
Endowment income designated for current operations	(718,690)	(947,644)	(1,666,334)
Change in beneficial interest in perpetual trust	-	2,939,464	2,939,464
	<u>\$ 923,977</u>	<u>\$ 45,210,843</u>	<u>\$ 46,134,820</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 \$28,077,000 and \$32,335,000 as of June 30, 2022 and 2021, respectively. PAFA was charged investment fees by the investment company. The fee was approximately for \$132,000 and \$122,000 for the years ended June 30, 2022 and 2021, respectively. In addition, this Trust Company provides two lines of credit for PAFA; interest expense during the year ended June 30, 2021 for these lines of credit was approximately \$31,000. There was no interest expense incurred on these lines of credit during the year ended June 30, 2022. PAFA received contributions of \$60,000 from the Trust Company in each of the years ended June 30, 2022 and 2021.
- ♦ PAFA has approximately \$560,000 and \$720,000 as of June 30, 2022 and 2021, 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, 2022 And 2021

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### (13) LEASES

PAFA leases student housing apartments under a lease arrangement with an initial term greater than 12 months. PAFA determines whether an agreement is or contains a lease at lease inception. Right-of-use assets represent PAFA's right to use an underlying asset for the lease term and lease liabilities represent PAFA's obligation to make lease payments arising from the lease, measured at an amount equal to the present value of the minimum lease payments over the remaining expected term of the lease. Amortization expense and interest expense related to PAFA's finance leases are included in tuition and fees, net of scholarships, on the statement of activities and changes in net assets.

In determination of the lease term, PAFA considers the likelihood of lease renewal options and lease termination provisions.

The discount rate for a lease is derived from the rate implicit in the lease whenever readily determinable or PAFA's incremental borrowing rate.

The following is the quantitative data related to PAFA's operating leases for the year ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<b>Operating Lease Amounts:</b>		
Right-of-use assets	\$ 275,633	\$ 965,298
Lease liabilities	275,633	965,298
<b>Other Information:</b>		
Operating outgoing cash flows for operating leases	\$ 469,024	\$ 383,813
Weighted-average remaining lease term	1.1 years	2.1 years
Weighted average discount rate	2.08%	2.08%

Lease cost information for the years ended June 30, 2022 and 2021 is as follows:

Operating lease cost	<u>\$ 469,024</u>	<u>\$ 383,813</u>
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Future lease payments at June 30, 2022 are as follows:

<u>Year Ending June 30, 2022</u>	
2023	\$ 258,824
2024	<u>19,970</u>
Total undiscounted cash flows	278,794
Less: present value adjustment	<u>(3,161)</u>
Lease liability	<u>\$ 275,633</u>

# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2022 And 2021

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### (14) COMMITMENTS AND CONTINGENCIES

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.

At June 30, 2022, the Academy is a party to certain lawsuits in the ordinary course of business. While any litigation has an element of uncertainty, after reviewing these actions with legal counsel, management is of the opinion that the liability, if any, resulting from these actions will not have a material effect on the financial condition of the Academy.

### (15) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects PAFA's financial assets and liquidity resources available as of June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 871,007	\$ 863,458
Investments	51,659,922	63,915,173
Accounts receivable	12,762	206,869
Pledge receivable current	<u>1,068,540</u>	<u>1,698,512</u>
Total financial assets available within one year	53,612,231	66,684,012
Estimated endowment income designated for operations	2,396,000	4,747,000
Assets restricted/designated as to use:		
Endowment funds without donor restriction	(752,772)	(923,977)
Donor restricted endowment funds	(27,323,943)	(31,714,130)
Other donor restricted funds	<u>(1,765,968)</u>	<u>(1,735,477)</u>
Total financial assets and liquidity resources available within one year	<u>\$ 26,165,548</u>	<u>\$ 37,057,428</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 \$6,500,000 in total which can be drawn upon as needed to manage cash flows.

### (16) SUBSEQUENT EVENTS

Subsequent events after the statement of financial position date through the date that the financial statements were available for issuance, November 17, 2022 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 except as noted below.