

PENNSYLVANIA ACADEMY OF THE FINE ARTS

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2023

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, 2023, 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, 2023, 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' 2022 financial statements, and our report dated November 17, 2022, 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, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
February 23, 2024**

PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 And 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 271,094	\$ 871,007
Accounts receivable, net	152,422	12,762
Prepaid expenses	241,212	353,882
Merchandise held for resale	100,461	112,982
Pledges receivable <i>(Notes 3 and 11)</i>	1,283,538	1,103,935
Other assets <i>(Notes 4 and 8)</i>	3,434,351	2,818,962
Operating lease right of use asset	19,936	275,633
Long term investments <i>(Notes 4 and 8)</i>	55,576,083	51,659,922
Property, buildings and equipment <i>(Note 5)</i>	47,565,475	49,111,490
Beneficial interest in perpetual trusts <i>(Notes 4 and 6)</i>	<u>12,172,907</u>	<u>11,458,587</u>
Total Assets	<u>\$ 120,817,479</u>	<u>\$ 117,779,162</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit <i>(Note 7)</i>	\$ 3,250,000	\$ -
Accounts payable	1,066,412	913,456
Accrued expenses	176,173	314,810
Deferred revenue	182,490	229,960
Operating lease liability	19,936	275,633
Bond payable <i>(Note 8)</i>	<u>24,666,521</u>	<u>24,733,579</u>
Total Liabilities	<u>29,361,532</u>	<u>26,467,438</u>
NET ASSETS		
Without donor restriction		
Undesignated	46,997,800	50,010,454
Board-designated <i>(Note 10)</i>	<u>775,314</u>	<u>752,772</u>
Total without donor restriction	47,773,114	50,763,226
With donor restriction <i>(Note 10)</i>	<u>43,682,833</u>	<u>40,548,498</u>
Total Net Assets	<u>91,455,947</u>	<u>91,311,724</u>
Total Liabilities and Net Assets	<u>\$ 120,817,479</u>	<u>\$ 117,779,162</u>

The accompanying notes are an integral part of these statements.

PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2023 With Summarized Information For 2022

	Without Donor Restrictions	With Donor Restrictions	TOTALS	
			2023	2022
Program Revenues, Support Revenue and Investment Income				
Tuition and fees, net of scholarships	\$ 3,177,874	\$ -	\$ 3,177,874	\$ 2,410,819
Continuing and public education	739,894	-	739,894	583,416
Museum operations	299,902	-	299,902	201,620
Auxiliary operations, net of costs of sales	658,997	-	658,997	882,448
Gifts and Grants	2,406,272	3,722,224	6,128,496	6,382,839
Investment income				
Endowment income designated for operations <i>(Note 4)</i>	607,745	864,239	1,471,984	2,172,683
Income from outside trusts	548,250	-	548,250	487,588
PPP loan forgiveness	-	-	-	1,596,447
Other	142,627	-	142,627	2,314
Net assets released from restrictions <i>(Note 10)</i>	<u>3,569,171</u>	<u>(3,569,171)</u>	<u>-</u>	<u>-</u>
Total operating program revenues, support revenue and investment income	<u>12,150,732</u>	<u>1,017,292</u>	<u>13,168,024</u>	<u>14,720,174</u>
Program and Support Expenses				
Program Expenses				
College	3,937,460	-	3,937,460	4,063,978
Campus operations	3,976,626	-	3,976,626	3,613,592
Continuing and public education	696,301	-	696,301	853,338
Museum operations	2,672,842	-	2,672,842	1,411,426
Auxiliary operations	<u>314,725</u>	<u>-</u>	<u>314,725</u>	<u>389,063</u>
Total program expenses	<u>11,597,954</u>	<u>-</u>	<u>11,597,954</u>	<u>10,331,397</u>
Support Expenses				
Management and general	2,864,631	-	2,864,631	2,624,979
Fundraising	<u>1,336,695</u>	<u>-</u>	<u>1,336,695</u>	<u>1,340,356</u>
Total support expenses	<u>4,201,326</u>	<u>-</u>	<u>4,201,326</u>	<u>3,965,335</u>
Total program and support expenses	<u>15,799,280</u>	<u>-</u>	<u>15,799,280</u>	<u>14,296,732</u>
Change in net assets before depreciation and amortization, non-operating revenues, expenses and gains (losses)	<u>(3,648,548)</u>	<u>1,017,292</u>	<u>(2,631,256)</u>	<u>423,442</u>
Non-Operating Revenues, Expenses and Gains/(Losses)				
Depreciation and amortization	(1,975,219)	-	(1,975,219)	(2,009,674)
Investment return in excess (deficit) of amount designated for current operations <i>(Notes 4)</i>	22,542	1,402,723	1,425,265	(5,556,757)
Other investment income (loss) <i>(Note 4)</i>	2,667,949	-	2,667,949	(5,110,760)
Change in beneficial interest in perpetual trusts <i>(Notes 4 and 10)</i>	-	714,320	714,320	(2,038,126)
Change in market value of interest rate swap	615,390	-	615,390	2,166,543
Proceeds from art sale	-	-	-	50,000
Collection items purchased not capitalized	<u>(672,226)</u>	<u>-</u>	<u>(672,226)</u>	<u>(515,859)</u>
Total depreciation and amortization, non-operating revenue, expenses and gains/(losses)	<u>658,436</u>	<u>2,117,043</u>	<u>2,775,479</u>	<u>(13,014,633)</u>
Change in net assets	(2,990,112)	3,134,335	144,223	(12,591,191)
Net Assets				
Beginning of year	<u>50,763,226</u>	<u>40,548,498</u>	<u>91,311,724</u>	<u>103,902,915</u>
End of year	<u>\$47,773,114</u>	<u>\$43,682,833</u>	<u>\$91,455,947</u>	<u>\$ 91,311,724</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, 2023 With Summarized Information For 2022

	2023							Total	2022
	College	Campus Operations	Continuing And Public Education	Museum Operations	Auxiliary	Management And General	Fundraising		
Personnel costs									
Salaries	\$2,746,303	\$ 249,565	\$ 411,403	\$ 1,051,831	\$ 172,514	\$ 1,508,919	\$ 764,637	\$ 6,905,172	\$ 6,765,149
Benefits and taxes	<u>532,360</u>	<u>48,424</u>	<u>149,575</u>	<u>133,895</u>	<u>33,464</u>	<u>299,191</u>	<u>150,386</u>	<u>1,347,295</u>	<u>1,325,645</u>
Total Personnel costs	<u>3,278,663</u>	<u>297,989</u>	<u>560,978</u>	<u>1,185,726</u>	<u>205,978</u>	<u>1,808,110</u>	<u>915,023</u>	<u>8,252,467</u>	<u>8,090,794</u>
Operating Expenses									
Professional fees	412,551	1,420,456	32,069	289,113	77,263	699,232	36,306	2,966,990	2,394,691
Travel and entertainment	91,119	7,563	25,379	89,693	2,862	126,238	274,846	617,700	532,371
Printing and advertising	29,439	-	4,585	245,531	2,565	45,679	60,660	388,459	443,329
Supplies	123,434	39,885	73,290	755,579	25,107	114,879	49,860	1,182,034	616,543
Occupancy and repairs	704	1,065,278	-	-	950	-	-	1,066,932	1,046,898
Insurance	1,550	340,503	-	107,200	-	-	-	449,253	401,756
Interest expense	-	804,952	-	-	-	70,493	-	875,445	670,350
Bad debt expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total operating expenses	<u>658,797</u>	<u>3,678,637</u>	<u>135,323</u>	<u>1,487,116</u>	<u>108,747</u>	<u>1,056,521</u>	<u>421,672</u>	<u>7,546,813</u>	<u>6,205,938</u>
Total personnel costs and operating expenses	<u>\$3,937,460</u>	<u>\$3,976,626</u>	<u>\$696,301</u>	<u>\$2,672,842</u>	<u>\$314,725</u>	<u>\$2,864,631</u>	<u>\$1,336,695</u>	<u>\$15,799,280</u>	<u>\$14,296,732</u>

PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 And 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 144,223	\$(12,591,191)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,954,660	1,989,114
Net unrealized depreciation (appreciation) on long-term investments	(3,936,648)	11,837,474
Net realized gains on long-term investments	(725,340)	(2,643,180)
Net unrealized depreciation (appreciation) on outside perpetual trusts	(714,320)	2,038,126
Contributions restricted for endowment	(1,012,054)	(942,626)
Amortization of right of use asset	276,111	458,088
Bad debt expense, net of recapture	-	100,000
Change in market value of swap	(615,389)	(2,166,543)
Amortization of deferred bond cost	20,559	20,559
(Increase) decrease in assets		
Accounts receivable	(139,660)	194,107
Inventories	12,521	4,305
Pledges receivable	(179,603)	999,169
Prepaid expenses and other assets	112,670	95,242
Increase (decrease) in liabilities		
Accounts payable	152,956	(8,784)
Accrued expenses	(138,637)	(328,402)
Deferred revenue	(47,470)	(637,495)
Net cash used for operating activities	<u>(4,835,421)</u>	<u>(1,582,037)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(408,645)	(359,462)
Purchases of long-term investments	(14,361,817)	(8,747,741)
Proceeds from sale of long-term investments	<u>15,107,644</u>	<u>11,808,698</u>
Net cash provided by investing activities	<u>337,182</u>	<u>2,701,495</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment	1,012,054	942,626
Net proceeds from (repayments of) line of credit	3,250,000	-
Payment of bond issuance costs	(42,311)	-
Payment of bond payable	(45,306)	-
Interest on lease liability	2,683	10,936
Finance lease liability payments	(278,794)	(469,024)
Forgiveness of PPP loan	-	(1,596,447)
Net cash provided by (used for) financing activities	<u>3,898,326</u>	<u>(1,111,909)</u>
Net change in cash and cash equivalents	(599,913)	7,549
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>871,007</u>	<u>863,458</u>
End of year	<u>\$ 271,094</u>	<u>\$ 871,007</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	<u>\$ 793,926</u>	<u>\$ 663,615</u>
Right-of-use – reassessment for lease modification	<u>\$ -</u>	<u>\$ 227,594</u>

The accompanying notes are an integral part of these statements.

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 And 2022

(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, 2023 And 2022

(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, 2023 And 2022

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, 2023 and 2022, PAFA had donated accessions with approximate appraised values totaling \$68,450 and \$97,250, respectively. Collection items purchased but not capitalized totaled \$672,226 and \$515,859 during the years ended June 30, 2023 and 2022, 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, 2023.

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 fiscal tax years (2020 – 2022) or is expected to be taken in the current fiscal 2023 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, 2023 And 2022

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, 2022, from which the summarized information was derived.

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

(3) CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Amounts due in:		
Less than one year	\$1,407,522	\$1,068,540
One to five years	<u>135,000</u>	<u>300,000</u>
Total pledges receivable	1,542,522	1,368,540
Less: discount to net present value	(2,881)	(6,645)
Allowance for doubtful accounts	<u>(256,103)</u>	<u>(257,960)</u>
Pledges receivable – long-term	<u>\$1,283,538</u>	<u>\$1,103,935</u>

Amounts due in the future have been discounted to their present values using discount rates ranging from 0.16% to 5.40%.

(4) INVESTMENTS

Investments consist of the following at June 30:

	<u>2023</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Money Market Funds	\$ 2,652,018	\$ -	\$ -	\$ 2,652,018
Common Stocks	11,381,396	7,221,385	-	18,602,781
Mutual Funds/Exchange Traded Funds	19,709,683	764,914	-	20,474,597
Pooled Investment Fund - Private Equity/Hedge Fund	<u>9,932,952</u>	<u>3,913,735</u>	<u>-</u>	<u>13,846,687</u>
	<u>\$43,676,049</u>	<u>\$11,900,034</u>	<u>\$ -</u>	<u>\$ 55,576,083</u>
	<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>

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

PAFA has various pooled investment funds, within BBH Wealth Strategies, LLC REMS Group Series, for \$13,846,687 and \$10,641,554 as of June 30, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, include without donor restricted investments of \$25,062,047 and \$23,583,206 respectively, which are invested separately from those investments for the endowment funds. Other investment income/(loss) of \$2,667,949 and \$(5,110,760) for the years ended June 30, 2023 and 2022, respectively, represents the net investment income on these without donor restricted investments.

The change in unrealized gain/(loss) was \$3,936,648 and \$(11,837,474) in 2023 and 2022, respectively.

For the years ended June 30, 2023 and 2022, the Board approved a 7% and 10% spending rate, respectively, to its net assets. 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, 2023 Total</u>	<u>June 30, 2022 Total</u>
Interest and dividends (net of fees of \$121,432 in 2023 \$132,305 in 2022, respectively)	\$ 14,855	\$ 586,608	\$ 601,463	\$ 535,950
Net realized and unrealized gains/(losses)	<u>62,449</u>	<u>2,233,337</u>	<u>2,295,786</u>	<u>(3,920,024)</u>
Return on long-term investments	77,304	2,819,945	2,897,249	(3,384,074)
Investment return designated for current operations*	<u>54,762</u>	<u>1,417,222</u>	<u>1,471,984</u>	<u>2,172,683</u>
Investment return in excess(deficit) of amounts designated for current operations	<u>\$ 22,542</u>	<u>\$ 1,402,723</u>	<u>\$ 1,425,265</u>	<u>\$ (5,556,757)</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>June 30, 2023 Total</u>
* Reconciliation to Statement of Activities			
Investment return designated for current operations per above	\$ 54,762	\$ 1,417,222	\$ 1,471,984
Investment return – permanent endowment income without donor restriction as to use	<u>552,983</u>	<u>(552,983)</u>	<u>-</u>
Per Statement of Activities – investment return	<u>\$ 607,745</u>	<u>\$ 864,239</u>	<u>\$ 1,471,984</u>

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

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.

The summary of inputs used to value PAFA’s assets and liabilities that are carried at fair value as of June 30, 2023 and 2022 are as follows:

	2023			Total
	Level 1	Level 2	Level 3	
Investments				
Money Market Funds	\$ 2,652,018	\$ -	\$ -	\$ 2,652,018
Common Stocks	18,602,781	-	-	18,602,781
Mutual Funds	<u>20,474,597</u>	<u>-</u>	<u>-</u>	<u>20,474,597</u>
	<u>\$41,729,396</u>	<u>\$ -</u>	<u>\$ -</u>	41,729,396
Alternative Investments reported at Net Asset Value				<u>13,846,687</u>
				<u>\$ 55,576,083</u>
Beneficial Interest in Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,172,907</u>	<u>\$ 12,172,907</u>
Interest Rate Swap Asset	<u>\$ -</u>	<u>\$3,434,351</u>	<u>\$ -</u>	<u>\$ 3,434,351</u>
	2022			
	Level 1	Level 2	Level 3	Total
Investments				
Money Market Funds	\$ 2,297,663	\$ -	\$ -	\$ 2,297,663
Common Stocks	17,952,149	-	-	17,952,149
Mutual Funds	<u>20,768,556</u>	<u>-</u>	<u>-</u>	<u>20,768,556</u>
	<u>\$41,018,368</u>	<u>\$ -</u>	<u>\$ -</u>	41,018,368
Alternative Investments reported at Net Asset Value				<u>10,641,554</u>
				<u>\$ 51,659,922</u>
Beneficial Interest in Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,458,587</u>	<u>\$ 11,458,587</u>
Interest Rate Swap Asset	<u>\$ -</u>	<u>\$2,818,962</u>	<u>\$ -</u>	<u>\$ 2,818,962</u>

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

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, 2023 or 2022.

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	
	<u>2023</u>	<u>2022</u>
Balance, July 1	\$ 11,458,587	\$ 13,496,713
Unrealized gains / (losses)	<u>714,320</u>	<u>(2,038,126)</u>
Balance, June 30	<u>\$ 12,172,907</u>	<u>\$ 11,458,587</u>

(5) PROPERTY, BUILDINGS AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Land, buildings and improvements	\$ 77,407,916	\$ 77,111,598
Furniture, fixtures and equipment	<u>5,711,077</u>	<u>5,600,479</u>
	83,118,993	82,712,077
Less accumulated depreciation	<u>(35,558,168)</u>	<u>(33,603,508)</u>
	47,560,825	49,108,569
Construction in progress	<u>4,650</u>	<u>2,921</u>
	<u>\$ 47,565,475</u>	<u>\$ 49,111,490</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, 2023, PAFA was unable to determine the extent of any remediation AROs that would be required in the future.

Depreciation expense was \$1,954,660 and \$1,989,114 for years ended June 30, 2023 and 2022, respectively.

(6) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The beneficial interest in perpetual trusts of \$12,172,907 and \$11,458,587 at June 30, 2023 and 2022, 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, 2023 And 2022

(7) 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, 2025. Interest on the line of credit is payable monthly at a variable percentage based upon the Wall Street Journal Prime Rate minus 1.40% (6.85% as of June 30, 2023 and 3.35% as of June 30, 2022, respectively). At June 30, 2023 the outstanding balance on the lines of credit was \$3,250,000. There was no balance outstanding on the lines of credit as of June 30, 2022. Interest expense on the lines of credit was \$70,493 for the year ended June 30, 2023. During the year ended June 30, 2022, PAFA did not utilize its lines of credit.

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 8). The line of credit of \$1,500,000 for working capital is collateralized by certain property owned by PAFA. 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, 2023 and 2022, 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.

(8) 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.

On June 21, 2023 the first amendment to the agreement was entered into with Wilmington Savings Fund Society, FSB (as successor to The Bryn Mawr Trust company) to move from LIBOR to SOFR for determining the floating rate per annum.

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 Wilmington Savings Fund Society, FSB (as successor to The Bryn Mawr Trust Company). The floating rate per annum as of June 30, 2023 is the sum of SOFR plus .11448% multiplied by seventy-eight percent which was 4.06%. The floating rate per annum as of June 30, 2022 is the sum of LIBOR plus 2.50% multiplied by seventy-eight percent which was 2.78%. Interest is paid monthly on the outstanding principal of the 2020 Bonds. Bonds payable of \$24,666,521 and \$24,733,579 as of June 30, 2023 and 2022 reflects bonds payable of \$24,954,695 and \$25,000,000, net of unamortized deferred financing expenses of \$288,174 and \$266,421, 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 Wilmington Savings Fund Society, FSB (as successor 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. 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 \$3,434,351 and \$2,818,962 in favor of PAFA as of June 30, 2023 and 2022, respectively, and is included in other assets in the statements of financial position.

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

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 issue, was \$804,952 and \$670,350 for the years ended June 30, 2023 and 2022, respectively.

Redemption payments required under the Bond Agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 540,309
2025	557,468
2026	573,211
2027	589,399
2028	604,321
Thereafter	<u>22,089,987</u>
Bond Payable at June 30, 2023, gross	24,954,695
Deferred Financing Expenses	<u>(288,174)</u>
Bond Payable at June 30, 2023, Net	<u>\$ 24,666,521</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>

(9) RETIREMENT PLANS

PAFA has a defined contribution plan covering employees over the age of 21 who work 1,000 hours or more in a calendar year. Under this plan, employees can contribute to the plan immediately, not to exceed the limits imposed by IRC 402(g). Effective after ninety days of employment, PAFA matches up to 4% for each employee contribution. During the years ended June 30, 2023 and 2022, PAFA contributed approximately \$190,000 and \$180,000 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, 2023 And 2022

(10) NET ASSETS

Net assets with a donor restriction at June 30, 2023 and 2022 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for a specified purpose:		
Major gifts-time restriction/purpose	\$ 1,771,198	\$ 1,765,968
	<u>1,771,198</u>	<u>1,765,968</u>
Perpetual in nature:		
Operations	4,684,635	4,684,635
Art acquisitions and conservation	3,349,691	3,349,691
Museum operations	3,275,139	2,646,639
College scholarships and prizes	16,938,913	16,555,359
College – other	1,309,978	1,309,979
Beneficial interest in perpetual trusts	<u>12,172,907</u>	<u>11,458,587</u>
	<u>41,731,263</u>	<u>40,004,890</u>
Accumulated endowment income(loss)	<u>180,372</u>	<u>(1,222,360)</u>
Total net assets with donor restrictions	<u>\$43,682,833</u>	<u>\$40,548,498</u>

Net assets were released from donor restrictions by satisfying the restricted purpose during the year ended June 30, 2023, as follows:

Purpose and time restrictions accomplished:

	<u>2023</u>
Acquisition of art	\$ 213,821
Major gifts-time restriction/purpose	2,334,308
Scholarships	<u>1,021,042</u>
	<u>\$3,569,171</u>

Endowment net asset composition by type of fund as of June 30, 2023 and 2022:

	<u>2023</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	\$ -	\$41,731,263	\$41,731,263
Accumulated endowment income	-	180,372	180,372
Funds functioning as endowment funds	<u>775,314</u>	<u>-</u>	<u>775,314</u>
Total Fund	<u>\$775,314</u>	<u>\$41,911,635</u>	<u>\$42,686,949</u>

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

	2022		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor 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>

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 year ended June 30, 2022, 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 \$775,314 and \$752,772 as of June 30, 2023 and 2022, 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. Restricted endowment funds had deficiencies which amounted to \$761,976 and \$1,429,359 as of June 30, 2023 and 2022, 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 \$20,356,992 and \$21,118,968 as of June 30, 2023 and \$19,126,943 and \$20,556,302 as of June 30, 2022.

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

Changes in endowment net assets for the years ended June 30, 2023 and 2022:

	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 752,772	\$ 38,782,530	\$ 39,535,302
Investment income, net	14,855	586,608	601,463
Realized and unrealized gains	62,449	2,233,337	2,295,786
Contributions/transfers	-	1,012,062	1,012,062
Endowment income designated for current operations	(54,762)	(1,417,222)	(1,471,984)
Change in beneficial interest in perpetual trust	<u>-</u>	<u>714,320</u>	<u>714,320</u>
	<u>\$ 775,314</u>	<u>\$ 41,911,635</u>	<u>\$ 42,686,949</u>

	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	<u>-</u>	<u>(2,038,126)</u>	<u>(2,038,126)</u>
	<u>\$ 752,772</u>	<u>\$ 38,782,530</u>	<u>\$ 39,535,302</u>

(11) RELATED PARTY TRANSACTIONS

PAFA had the following related party transactions:

- ♦ PAFA uses the services of a Trust Company where three Board members are paid Directors. Assets under management with this investment company totaled approximately \$30,514,000 and \$28,077,000 as of June 30, 2023 and 2022, respectively. PAFA was charged investment fees by the investment company. The fee was approximately for \$121,000 and \$132,000 for the years ended June 30, 2023 and 2022, respectively. In addition, this Trust Company provides two lines of credit for PAFA; interest expense during the year ended June 30, 2023 for these lines of credit was approximately \$70,000. 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, 2023 and 2022.
- ♦ PAFA has approximately \$301,000 and \$560,000 as of June 30, 2023 and 2022, 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, 2023 And 2022

(12) 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Operating Lease Amounts:		
Right-of-use assets	\$ 19,936	\$ 275,633
Lease liabilities	19,936	275,633
Other Information:		
Operating outgoing cash flows for operating leases	\$ 258,824	\$ 469,024
Weighted-average remaining lease term	0.1 year	1.1 years
Weighted average discount rate	2.08%	2.08%

Lease cost information for the years ended June 30, 2023 and 2022 is as follows:

Operating lease cost	<u>\$ 257,349</u>	<u>\$469,024</u>
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Future lease payments at June 30, 2023 are as follows:

<u>Year Ending June 30, 2023</u>	
2024	<u>\$ 19,970</u>
Total undiscounted cash flows	19,970
Less: present value adjustment	<u>(34)</u>
Lease liability	<u>\$ 19,936</u>

Subsequent to year-end, the Academy negotiated an extension to continue leasing the student housing from the lessor. This lease extension did not meet the recognition requirements under ASU 842. The monthly costs of continuing to lease the student housing is approximately \$27,000 a month.

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

(13) 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, 2023, 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.

(14) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects PAFA's financial assets and liquidity resources available as of June 30, 2023 and 2022, 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>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 271,094	\$ 871,007
Investments	55,576,083	51,659,922
Accounts receivable	152,422	12,762
Pledge receivable current	<u>1,407,522</u>	<u>1,068,540</u>
Total financial assets available within one year	57,407,121	53,612,231
Estimated endowment income designated for operations	1,730,000	2,396,000
Assets restricted/designated as to use:		
Endowment funds without donor restriction	(775,314)	(752,772)
Donor restricted endowment funds	(29,738,728)	(27,323,943)
Other donor restricted funds	<u>(1,771,198)</u>	<u>(1,765,968)</u>
Total financial assets and liquidity resources available within one year	<u>\$ 26,851,881</u>	<u>\$ 26,165,548</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. As of June 30, 2023, the available balance to draw was \$3,250,000.

(15) SUBSEQUENT EVENTS

Subsequent events after the statement of financial position date through the date that the financial statements were available for issuance, February 23, 2024 have been evaluated in the preparation of the financial statements and management has determined that there is a subsequent event that would require disclosure or adjustment in the financial statements.

PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2023 And 2022

As a result of an array of issues, including ongoing low enrollment, national trends in higher education, and financial challenges, PAFA's Board of Trustees voted on January 9, 2024 to end its BFA and MFA degree granting programs offered within the College. The institution will transition students over the next 18 months, with the College closing in the summer of 2025. An orderly plan has been established under the guidelines of its accreditors, including the Middle States Commission on Higher Education and the National Association of Schools of Art and Design. PAFA will continue to offer non-degree Certificates in Fine Art, Adult Continuing Education programs, and programs for children in grades K through 12. No substantive changes have been made to the operations of its museum and exhibition functions.