

The Baum School of Art

Financial Statements
Year Ended June 30, 2020



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THE BAUM SCHOOL OF ART

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
The Baum School of Art
Allentown, Pennsylvania**

We have audited the accompanying financial statements of The Baum School of Art (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Baum School of Art as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited The Baum School of Art's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
December 18, 2020**

THE BAUM SCHOOL OF ART

STATEMENT OF FINANCIAL POSITION

June 30, 2020 with comparative totals for 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 373,055	\$ 147,664
Contributions receivable	130,500	117,810
Accounts receivable	46,668	15,773
Prepaid expenses and other assets	13,512	13,532
Investments	691,111	650,531
Art inventory	1,451,577	1,457,757
Permanent art collection	500,000	500,000
Property and equipment, net	<u>2,735,251</u>	<u>2,789,345</u>
Total assets	<u>\$ 5,941,674</u>	<u>\$ 5,692,412</u>
LIABILITIES		
Loan payable	\$ 323,138	\$ 213,771
Loan payable - Paycheck Protection Program	133,500	-
Accounts payable and accrued expenses	26,364	32,112
Deferred revenue	<u>38,267</u>	<u>-</u>
Total liabilities	<u>521,269</u>	<u>245,883</u>
NET ASSETS		
Without donor restrictions		
Operating	1,778,139	1,674,717
Board designated	355,634	322,031
Plant	<u>2,412,113</u>	<u>2,575,574</u>
Total net assets without donor restrictions	4,545,886	4,572,322
With donor restrictions	<u>874,519</u>	<u>874,207</u>
Total net assets	<u>5,420,405</u>	<u>5,446,529</u>
Total liabilities and net assets	<u>\$ 5,941,674</u>	<u>\$ 5,692,412</u>

See accompanying notes

THE BAUM SCHOOL OF ART

STATEMENT OF ACTIVITIES

Year ended June 30, 2020 with comparative totals for 2019

	Without Donor Restrictions				With Donor Restrictions	Totals	
	Operating	Board Designated	Plant	Total		2020	2019
REVENUE AND SUPPORT							
Tuition and studio fees (net of scholarships of \$135,457 in 2020 and \$188,184 in 2019)	\$ 280,464	\$ -	\$ -	\$ 280,464	\$ -	\$ 280,464	\$ 443,239
Grants and contributions	343,269	1,145	-	344,414	77,087	421,501	680,898
Special events (net of direct expenses of \$37,050 in 2020 and \$101,933 in 2019)	94,927	-	-	94,927	-	94,927	141,186
Circulating picture club	27,337	-	-	27,337	-	27,337	28,585
Community arts program	60,885	-	-	60,885	-	60,885	61,656
Other	11,984	-	-	11,984	-	11,984	10,984
Endowment spending policy distribution	25,299	(11,275)	-	14,024	(14,024)	-	-
Net assets released from restrictions	65,285	6,500	-	71,785	(71,785)	-	-
Total revenue and support	909,450	(3,630)	-	905,820	(8,722)	897,098	1,366,548
EXPENSES							
Program service	651,226	-	-	651,226	-	651,226	839,018
Supporting services							
Management and general	213,917	-	-	213,917	-	213,917	174,645
Fundraising	91,296	-	-	91,296	-	91,296	74,146
Total expenses	956,439	-	-	956,439	-	956,439	1,087,809
Change in net assets before other changes	(46,989)	(3,630)	-	(50,619)	(8,722)	(59,341)	278,739
OTHER CHANGES							
Investment income	852	37,233	-	38,085	9,034	47,119	56,759
In-kind contributions of art inventory	7,600	-	-	7,600	-	7,600	46,547
Loss on sale of art inventory	(11,961)	-	-	(11,961)	-	(11,961)	(18,062)
Loss on disposal of property and equipment	-	-	(9,541)	(9,541)	-	(9,541)	-
Transfers							
Property and equipment additions	(61,843)	-	61,843	-	-	-	-
Depreciation	106,396	-	(106,396)	-	-	-	-
Net proceeds from refinance of loan payable	109,367	-	(109,367)	-	-	-	-
Total other changes	150,411	37,233	(163,461)	24,183	9,034	33,217	85,244
CHANGE IN NET ASSETS	103,422	33,603	(163,461)	(26,436)	312	(26,124)	363,983
NET ASSETS							
Beginning of year	1,674,717	322,031	2,575,574	4,572,322	874,207	5,446,529	5,082,546
End of year	\$ 1,778,139	\$ 355,634	\$ 2,412,113	\$ 4,545,886	\$ 874,519	\$ 5,420,405	\$ 5,446,529

See accompanying notes

THE BAUM SCHOOL OF ART

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020 with comparative totals for 2019

	Program Service	Management and General	Fundraising	Totals	
				2020	2019
Salaries	\$ 333,547	\$ 99,081	\$ 71,563	\$ 504,191	\$ 581,031
Payroll taxes and employee benefits	45,383	15,911	12,866	74,160	80,263
Class supplies	16,473	-	-	16,473	26,200
Credit card and bank fees	8,447	-	939	9,386	11,033
Depreciation	69,157	37,239	-	106,396	100,639
Interest	6,353	2,723	-	9,076	9,709
Leased equipment	2,562	2,562	-	5,124	6,450
Maintenance supplies	15,201	1,690	-	16,891	32,243
Models	4,300	-	-	4,300	6,605
Occupancy	52,933	5,881	-	58,814	61,892
Office expense	-	11,433	-	11,433	13,184
Postage	4,078	1,255	941	6,274	8,874
Printing	12,828	-	397	13,225	21,570
Professional fees	-	23,983	-	23,983	11,480
Promotion and publicity	53,119	-	1,084	54,203	69,354
Service contracts	7,103	7,103	-	14,206	13,808
Telephone	2,501	625	-	3,126	3,150
Transportation	6,126	-	-	6,126	11,555
Miscellaneous	11,115	4,431	3,506	19,052	18,769
Total expenses	\$ 651,226	\$ 213,917	\$ 91,296	\$ 956,439	\$ 1,087,809

See accompanying notes

THE BAUM SCHOOL OF ART

STATEMENT OF CASH FLOWS

Year ended June 30, 2020 with comparative totals for 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (26,124)	\$ 363,983
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	106,396	100,639
Unrealized and realized gain on investments	(30,674)	(46,261)
In-kind contributions of art inventory	(7,600)	(46,547)
Loss on sale of art inventory	11,961	18,062
Loss on disposal of property and equipment	9,541	-
(Increase) decrease in		
Contributions receivable	(12,690)	(18,206)
Accounts receivable	(30,895)	2,562
Prepaid expenses and other assets	20	(4,129)
Increase (decrease) in		
Accounts payable and accrued expenses	(5,748)	(26,610)
Deferred revenue	<u>38,267</u>	<u>(3,020)</u>
Net cash provided by operating activities	<u>52,454</u>	<u>340,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	138,087	374,505
Purchases of investments	(147,993)	(541,447)
Purchases of property and equipment	(61,843)	(23,361)
Proceeds from sale of art inventory	<u>1,819</u>	<u>6,658</u>
Net cash used for investing activities	<u>(69,930)</u>	<u>(183,645)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from refinanced loan payable	325,000	-
Proceeds from Paycheck Protection Program loan payable	133,500	-
Principal payments on loan payable	<u>(215,633)</u>	<u>(9,164)</u>
Net cash provided by (used for) financing activities	<u>242,867</u>	<u>(9,164)</u>
Net change in cash	225,391	147,664
CASH		
Beginning of year	<u>147,664</u>	<u>-</u>
End of year	<u>\$ 373,055</u>	<u>\$ 147,664</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 9,076</u>	<u>\$ 9,709</u>

See accompanying notes

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(1) NATURE OF OPERATIONS

The Baum School of Art (the "**School**"), is a nonprofit organization organized under the laws of the Commonwealth of Pennsylvania for the purpose of teaching art to students and cultural enrichment of the community through seminars and exhibitions.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. As a result, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The School reports information regarding its financial position and activities according to the following classes of net assets:

Without donor restrictions

Net assets that are not subject to donor-imposed restrictions. The School has three classifications of net assets without donor restrictions. Operating net assets are net assets that are available for the general operations of the School. Plant net assets without donor restrictions represent the School's property and equipment less any related debt. Board designated net assets have been designated by the Board of Directors to function as an endowment with the income available for scholarships.

With donor restrictions

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the School and/or the passage of time. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions that require the net assets to be maintained indefinitely while permitting the School to expend the income generated in accordance with the provisions of the contribution.

Summarized Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles ("**GAAP**"). Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with GAAP. Those estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the School. Unobservable inputs reflect the School's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the School has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the School's own assumptions.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect from balances outstanding at year-end. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Management believes all accounts were collectible and did not provide an allowance for uncollectible accounts. The School does not charge interest on outstanding balances.

Investments and Investment Income

Investments in debt and equity securities with readily determinable fair values are reported at fair value as determined by quoted market prices with gains and losses included in the statement of activities. Dividend and interest income is recorded as earned. Restricted investment income whose restrictions are satisfied in the same period are reported as without donor restrictions.

The School invests in a professionally-managed portfolio that contains various types of securities (**See Note 3**). Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

Art Inventory

Art inventory is art held by the School for use in its Circulating Picture Club. The art items are periodically evaluated for use, and items are occasionally sold if they no longer are deemed useful to the program. They are recorded at cost, if purchased, and fair value at the date contributed if donated. Art inventory for which this information is not available has been recorded based on insurance values.

Permanent Art Collection

The School capitalizes its permanent art collection. Accessions are capitalized at cost if purchased and at fair value at the date of accession if received by donation. Gains and losses on deaccessions of donated collections are recorded based on the presence or absence of donor restrictions placed on items at the date of donation. Proceeds from deaccessions are used to purchase new collection items.

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Property and Equipment

Property and equipment are stated at cost, if purchased, and at fair value at the date contributed if donated. Depreciation is computed using the straight-line method based on estimated useful lives. The School typically capitalizes items costing or valued at \$500 or more. Routine repairs and maintenance expenses are expensed as incurred.

Furniture and equipment	3 – 10 years
Buildings and improvements	10 – 50 years

Revenue Recognition

The School recognizes revenue from tuition and fees during the period 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 period the course is offered. Payments for tuition and fees are generally required before the start of the course. All amounts received prior to the commencement of the course, including enrollment deposits, are deferred to the applicable period. Scholarships provided to students are recorded as a reduction from the posted tuition and fees at the time revenue is recognized.

The School also holds special fundraising events. The School records special events revenue equal to the fair value of direct benefits to donors and contribution income for the excess received when the event takes place.

Grants and contributions are recorded as net assets without donor restrictions or net asset with donor restrictions depending on the absence or existence and nature of any donor restrictions. Donor-restricted grants and contributions whose restrictions are satisfied in the same period are reported as net assets without donor restrictions.

Unconditional grants and contributions are recognized when the related promise to give is received. Conditional grants and contributions are recognized when the conditions are satisfied.

The School recognized revenue from the circulating picture club over the period in which the client holds the artwork at their location. The performance obligation consists of providing the client with the artwork for a specified period of time and is recognized ratably over the period.

Advertising Costs

Advertising costs are expensed as incurred and were \$54,203 and \$69,354 for the years ended June 30, 2020 and 2019, respectively.

Functional Expenses

The costs of providing the various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of that functional area. Expenses not directly attributable to a specific functional area are allocated. Significant expenses that are allocated included salaries, payroll taxes and employee benefits which were allocated based on estimates of time and effort. Other expenses allocated based on space occupied by function and other objective bases include credit card and bank fees, depreciation, interest, leased equipment, maintenance supplies, occupancy, postage, printing, telephone and miscellaneous expenses.

Income Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the School's tax-exempt purpose is subject to taxation as unrelated business income.

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain tax positions. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. The School believes that it had no uncertain tax positions.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentration of credit risk are cash, contributions receivable and accounts receivable. The School maintains its cash at a financial institution and, at times, such deposits may exceed federally-insured limits. Contributions receivable are expected to be collected in 2021. Accounts receivable are due from students currently enrolled and are expected to be collected in 2021.

Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board ("**FASB**") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The School adopted ASU 2014-09 on July 1, 2019 using the modified retrospective method approach.

The School performed an analysis of revenue streams and transactions under ASU 2014-09, including applying the portfolio approach as a practical expedient to group contracts with similar characteristics such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. The impact of adopting ASU 2014-09 was not material to total revenues without donor restrictions, excess of revenues and gains over expenses and losses, or total net assets. The School's revenue recognition policies are detailed within Note 2.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU clarifies and improves the scope and accounting guidance for contributions received and made and assists entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance, and in determining whether a contribution is conditional. The School adopted ASU 2018-08 on July 1, 2019. The adoption of this standard did not have a material impact on the School.

(3) INVESTMENTS

Investments consisted of the following at June 30,:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 5,685	\$ 27,205
Common stocks	402,563	327,479
Preferred stocks	53,486	26,920
Corporate bonds	134,651	151,562
Equity mutual funds	25,084	37,148
Equity exchange-traded funds	<u>69,642</u>	<u>80,217</u>
	<u>\$691,111</u>	<u>\$650,531</u>

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

All investments are valued using Level 1 (quoted prices in active markets) valuation inputs, except for preferred stock and corporate bonds which are measured using level 2 (quoted prices in inactive markets or significant observable inputs) valuation inputs.

Investment income was comprised of the following for the years ended June 30,:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 22,275	\$ 15,321
Investment management fees	(5,830)	(4,823)
Unrealized and realized gain	<u>30,674</u>	<u>46,261</u>
	<u>\$ 47,119</u>	<u>\$ 56,759</u>

(4) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30,:

	<u>2020</u>	<u>2019</u>
Land	\$ 481,894	\$ 481,894
Buildings and improvements	4,053,276	4,014,366
Charles C. Dent Memorial Sculpture Garden	150,615	150,615
Furniture and fixtures	142,259	142,259
Equipment	<u>335,217</u>	<u>327,549</u>
	5,163,261	5,116,683
Less accumulated depreciation	<u>(2,428,010)</u>	<u>(2,327,338)</u>
	<u>\$ 2,735,251</u>	<u>\$ 2,789,345</u>

Depreciation was \$106,396 and \$100,639 for the years ended June 30, 2020 and 2019, respectively.

(5) LINE OF CREDIT

The School obtained a new \$300,000 bank line of credit during the year ended June 30, 2020 that is payable on demand. Advances under this line of credit bear interest at the bank's variable prime rate (3.25% as of June 30, 2020) with a floor of 4.25%. The line of credit matures on March 17, 2021. The outstanding balance was \$-0- at June 30, 2020.

Interest expense on this line of credit was \$98 for the year ended June 30, 2020.

(6) LOAN PAYABLE

The School had a loan payable, which is secured by the School's land and building and bears interest at 4.40%. The loan required monthly principal and interest payments of \$1,577 through March 2020. In April 2020, the School refinanced this loan payable with a new loan of \$325,000. The loan requires 240 monthly principal and interest payments of \$1,893 and bears interest at 3.50%. The loan matures in April 2040.

Interest expense on the loan payable was \$8,978 and \$9,709 for the years ended June 30, 2020 and 2019, respectively.

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

The loan payable matures as follows:

Year ending June 30,

2021	\$ 11,438
2022	11,851
2023	12,278
2024	12,694
2025	13,179
Thereafter	<u>261,698</u>
	<u>\$323,138</u>

(7) LOAN PAYABLE – PAYCHECK PROTECTION PROGRAM

The School received a \$133,500 loan under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act in March 2020 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The School is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Management anticipates meeting these requirements and applying for forgiveness in the year ended June 30, 2021. The loan is uncollateralized and is fully guaranteed by the Federal government.

(8) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>June 30, 2020</u>
Subject to expenditure for specific purpose				
Scholarships				
Senior tuition assistance reward (STAR)	\$ 78,021	\$ 8,122	\$ (6,500)	\$ 79,643
Summer camps	33,000	-	(33,000)	-
General	75,800	25,716	(4,861)	96,655
Other	4,455	1,350	(3,940)	1,865
Other	<u>34,109</u>	<u>58,791</u>	<u>(28,345)</u>	<u>64,555</u>
	225,385	93,979	(76,646)	242,718
Net assets to be maintained indefinitely				
Endowment with an historic dollar value of \$120,000, whose income is available to support art education and outreach	148,822	(7,858)	(9,163)	131,801
Permanent art collection	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
	<u>648,822</u>	<u>(7,858)</u>	<u>(9,163)</u>	<u>631,801</u>
	<u>\$874,207</u>	<u>\$86,121</u>	<u>\$(85,809)</u>	<u>\$874,519</u>

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>June 30, 2019</u>
Subject to expenditure for specific purpose				
Scholarships				
Senior tuition assistance reward (STAR)	\$ 76,929	\$ 8,307	\$ (7,215)	\$ 78,021
Summer camps	43,000	33,000	(43,000)	33,000
General	71,418	8,170	(3,788)	75,800
Other	11,650	3,800	(10,995)	4,455
Other	<u>30,924</u>	<u>30,500</u>	<u>(27,315)</u>	<u>34,109</u>
	233,921	83,777	(92,313)	225,385
Net assets to be maintained indefinitely				
Endowment with an historic dollar value of \$120,000, whose income is available to support art education and outreach	148,673	9,294	(9,145)	148,822
Permanent art collection	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
	<u>648,673</u>	<u>9,294</u>	<u>(9,145)</u>	<u>648,822</u>
	<u>\$882,594</u>	<u>\$93,071</u>	<u>\$(101,458)</u>	<u>\$874,207</u>

(9) RETIREMENT PLAN

The School has a SIMPLE IRA pension plan. The School contributed 3% of participating employees' salary to the plan. The cost to the School for the years ended June 30, 2020 and 2019 was \$8,563 and \$10,220, respectively.

(10) ENDOWMENT FUNDS

An accounting standard exists which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("**UPMIFA**"). The School is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

In accordance with Pennsylvania statutes, the School has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The School's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of income annually distributed from the endowment funds. The current spending policy is to distribute an amount up to 6.0% of a trailing 12 quarter average of the fair value of the endowment fund.

Changes in the endowment assets for the year ended June 30, 2020 and 2019 are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ 322,031	\$302,643	\$ 624,674
Contributions	1,145	16,946	18,091
Investment income	37,233	9,034	46,267
Endowment spending policy distribution	(11,275)	(14,024)	(25,299)
Released from restrictions	<u>6,500</u>	<u>(6,500)</u>	<u>-</u>
Endowment net assets, June 30, 2020	<u>\$ 355,634</u>	<u>\$308,099</u>	<u>\$ 663,733</u>

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 115,837	\$300,646	\$ 416,483
Contributions	278,518	-	278,518
Investment income	30,988	25,711	56,699
Withdrawals	(101,169)	-	(101,169)
Endowment spending policy distribution	(12,924)	(12,933)	(25,857)
Released from restrictions	<u>10,781</u>	<u>(10,781)</u>	<u>-</u>
Endowment net assets, June 30, 2019	<u>\$ 322,031</u>	<u>\$302,643</u>	<u>\$ 624,674</u>

(11) COMMITMENTS AND CONTINGENCIES

The School has elected not to be covered by Pennsylvania Unemployment Compensation. All claims for unemployment benefits must be paid by the School as they occur.

(12) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the School's financial assets as of the statement of financial position date, which has been reduced by financial assets not available within one year.

Cash	\$ 373,055
Contribution receivable	130,500
Accounts receivable	46,668
Investments	<u>691,111</u>
Total financial assets	1,241,334
Less: financial assets not available for general operations within one year	
Restricted by donor for specific purposes or periods	(242,718)
Restricted by donor to be maintained indefinitely	(131,801)
Board-designated financial assets	<u>(355,634)</u>
Total financial assets available within one year	<u>\$ 511,181</u>

Liquidity Management

The School regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The School has various sources of liquidity at its disposal, including cash, money market funds, marketable debt and equity securities, and a line of credit.

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2020, which is the date the financial statements were available to be issued. The extent of the impact of COVID-19 on the School's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, all of which cannot be predicted at this time. No other material subsequent events have occurred since June 30, 2020 that required recognition or disclosure in the financial statements.