

DRAFT

PHILADELPHIA ART ALLIANCE

FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION

YEARS ENDED
DECEMBER 31, 2015 AND 2014

PHILADELPHIA ART ALLIANCE

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2015 AND 2014

DRAFT

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets		
Cash	\$ 34,768	\$ 26,416
Other receivables	17,390	11,029
Investments	473,732	582,709
Prepaid expenses	<u>1,179</u>	<u>3,975</u>
Total current assets	527,069	624,129
Property and equipment, net	<u>567,974</u>	<u>614,497</u>
Total assets	<u>\$ 1,095,043</u>	<u>\$ 1,238,626</u>

See accompanying notes to financial statements.

PHILADELPHIA ART ALLIANCE

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2015

DRAFT

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions	\$ 44,783	\$ -	\$ 44,783
Grants	17,798	25,515	43,313
Special events	149,710	-	149,710
Membership dues	11,404	-	11,404
Program and exhibition	1,066	-	1,066
Rent	179,374	-	179,374
Dividends and interest	29,918	-	29,918
Realized gain on sale of investments	10,063	-	10,063
Unrealized loss on investments	(65,020)	-	(65,020)
Miscellaneous income	65	-	65
	<hr/>	<hr/>	<hr/>
Total support and revenue	379,161	25,515	404,676
Net assets released from restrictions	<hr/>	<hr/>	<hr/>
	6,209	(6,209)	-
	<hr/>	<hr/>	<hr/>
	385,370	19,306	404,676
Expenses			
Program services	212,874	-	212,874
Fundraising	130,649	-	130,649
General and administrative	197,918	-	197,918
	<hr/>	<hr/>	<hr/>
Total expenses	541,441	-	541,441
Change in net assets	<hr/>	<hr/>	<hr/>
	(156,071)	19,306	(136,765)
Net assets, September 1	<hr/>	<hr/>	<hr/>
	987,192	-	987,192
Net assets, August 31	<hr/>	<hr/>	<hr/>
	\$ 831,121	\$ 19,306	\$ 850,427

<u>PHILADELPHIA ART ALLIANCE</u>		
<u>STATEMENTS OF CASH FLOWS</u>		
<u>YEARS ENDED AUGUST 31, 2015 AND 2014</u>		
<u>DRAFT</u>		
	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (136,765)	\$ (230,922)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	53,671	53,314
Realized gain on sale of investments	(10,063)	(27,931)
Unrealized (gain) loss on investments	65,020	(31,612)
(A)crease (decrease) in assets		
Grant receivable	-	110,000
Other receivable	(6,361)	(6,781)
Prepaid expenses	2,796	1,850
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	12,278	(10,539)
Tenant security deposits	-	16,000
Net cash used by operating activities	<u>(19,424)</u>	<u>(126,621)</u>
Cash flows from investing activities		
Purchases of property and equipment	(7,148)	-
Loss from lease commencement payment	-	25,000
Proceeds from sale of investments	68,543	114,857
Purchases of investments	<u>(14,523)</u>	<u>(34,275)</u>
Net cash provided by investing activities	<u>46,872</u>	<u>105,582</u>
Cash flows from financing activities		
Repayment of lease termination obligation	(11,333)	(8,500)
Repayment of debt	<u>(7,763)</u>	<u>-</u>
Net cash used by financing activities	<u>(19,096)</u>	<u>(8,500)</u>

PHILADELPHIA ART ALLIANCE

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

DRAFT

This summary of significant accounting policies of the Philadelphia Art Alliance ("Alliance") is presented to assist in understanding the Alliance's financial statements. The financial statements and accompanying notes are representations of the Alliance's management, who are also responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Activities

The Alliance operates as a non-profit organization established under the laws of the Commonwealth of Pennsylvania. It was established in 1915 and is the oldest multidisciplinary arts center in the country. The Alliance is dedicated to the advancement and appreciation of innovative contemporary craft - works in ceramic, glass, fiber, metal and wood - and design and to inspiring dynamic interactions between audiences and artists in a setting of historic and aesthetic significance.

Date of Management Evaluation of Subsequent Events

Management has evaluated subsequent events through **RELEASE DATE**, the date on which the financial statements were available to be issued.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with GAAP.

Financial Statement Presentation

The Alliance presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Accordingly, the Alliance reports information regarding its financial position and activities according to three classes of net assets.

Unrestricted Net Assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for general activities and are used for the cost of general operations of the Alliance.

Unrestricted net assets that are designated by the Board for the endowment are net assets to be used for capital improvements to the Alliance Building (Note 5). The investment returns (Note 3) are designated by the Board for the Endowment but may be available for the cost of general operations, if approved by the Board.

PHILADELPHIA ART ALLIANCE

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Cont'd.)

Property and Equipment

DRAFT

Property and equipment are capitalized at cost. Depreciation is provided under the straight-line method over the estimated useful lives of the related assets.

Maintenance and repairs are expensed as incurred. Additions, betterments, and renewals, unless of minor amounts, are capitalized and depreciated. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved, and the resulting gain or loss is included in activities.

Advertising Costs

Advertising costs are expensed in the year incurred. Advertising expense was \$1,504 and \$0 for the years ended August 31, 2015 and 2014, respectively.

Income Taxes

The Alliance is a tax-exempt corporation organized under §501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for federal income taxes in the accompanying financial statements.

The Philadelphia Art Alliance Forms 990, *Return of Organization Exempt From Income Tax*, for the years ended August 31, 2015, 2014 and 2013 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

2. Other Receivables

Other receivables as of August 31, 2015 and 2014 include utilities receivable of \$10,619 and \$7,881, respectively and additional rent receivable of \$845 and \$2,387, respectively. Other receivables as of August 31, 2015 also include contribution receivable for the spring event in the amount of \$5,000.

PHILADELPHIA ART ALLIANCE

NOTES TO FINANCIAL STATEMENTS

3. Investments (Cont'd.)

DRAFT

Investments as of August 31, 2017, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Bond funds			
Blackrock Low Duration Bond Fund	\$ 48,134	\$ 49,654	\$ 1,520
DFA One-Year Fixed Income Portfolio	55,356	55,888	532
Federated Government Ultra Short Duration Fund	38,274	38,184	(90)
Metropolitan West Total Return Bond Fund	<u>37,965</u>	<u>45,970</u>	<u>8,005</u>
	<u>179,729</u>	<u>189,696</u>	<u>9,967</u>
Equity Funds			
Adams Harkness Small Cap Growth Fund	8,475	12,216	3,741
Baron Growth Fund	4,933	13,538	8,605
DFA Emerging Markets Core Equity Portfolio	5,867	11,756	5,889
DFA Global Real Estate Securities Portfolio	7,775	10,093	2,318
DFA International Small Cap Value Portfolio	22,274	21,991	(283)
DFA International Value Portfolio	22,110	21,280	(830)
DFA US Large Cap Value Portfolio	8,837	17,879	9,042
DFA US Small Cap Value Portfolio	7,596	11,210	3,614
DFA US Micro Cap Portfolio	3,866	6,569	2,703
Dodge & Cox Stock Fund	6,369	11,609	5,240
E.I.I. Global Property Institutional Fund	8,502	10,662	2,160
First Eagle Overseas Fund Class I	7,039	14,691	7,652
Hotchkis & Wiley Large Cap Val Fd Class I	5,803	9,268	3,465
Hotchkis & Wiley Mid Cap Val Fd Class I	8,877	22,082	13,205
Ivy Mid Cap Growth Fund	6,711	9,625	2,914
Janus Fund	5,703	10,758	5,055
Janus Overseas Fund	8,414	13,931	5,517
Maingate MLP Fund Class I	14,788	20,607	5,819
Mainstay Marketfield Fund	12,001	11,650	(351)
Morgan Stanley Inst Emerging Markets Fund A	10,249	11,645	1,396
Morgan Stanley Inst International Equity Fund A	16,270	16,057	(213)
Royce Opportunity Fund	8,512	14,759	6,247
RS Global Natural Fund	7,605	7,836	231
Thornburg International Value Fund	5,440	6,837	1,397
Westcore International Small Cap Fund	3,455	7,698	4,243
Westcore Mid Cap Value Fund	9,626	13,810	4,184
Westcore MIDCO Growth Fund	6,022	9,474	3,452
William Blair International Growth Fund	8,406	10,972	2,566
William Blair International Small Cap Growth Fund Class N	3,271	7,839	4,568
William Blair Mid Cap Growth Fund Class I	8,155	10,355	2,200
William Blair Large Cap Growth Fund Class I	<u>9,645</u>	<u>14,316</u>	<u>4,671</u>
	<u>272,596</u>	<u>393,013</u>	<u>120,417</u>
	<u>\$ 452,325</u>	<u>\$ 582,709</u>	<u>\$ 130,384</u>

PHILADELPHIA ART ALLIANCE

NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements (Cont'd.)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at August 31, 2015 and 2014.

Investments in bond and equity funds: determined by reference to quoted market prices and other relevant information generated by market transactions.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Alliance believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Alliance's assets at fair value as of August 31, 2015 and 2014:

	Fair Value Measurements at Reporting Date Using	
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)
August 31, 2015		
Investments		
Bond funds		
Medium duration	\$ 45,632	\$ 45,632
Short/ultra-short duration	<u>123,115</u>	<u>123,115</u>
	<u>168,747</u>	<u>168,747</u>
Equity funds		
Diversified emerging markets	21,349	21,349
Energy	16,593	16,593
Foreign growth	41,635	41,635
Foreign value	62,118	62,118
Natural resources	4,347	4,347
Large cap growth	18,374	18,374
Large cap value	32,444	32,444
Long/short value	10,119	10,119
Mid cap growth	34,178	34,178
Mid cap value	27,549	27,549
Small cap growth	14,827	14,827
Small cap value	<u>21,452</u>	<u>21,452</u>
	<u>304,985</u>	<u>304,985</u>
	<u>\$ 473,732</u>	<u>\$ 473,732</u>

PHILADELPHIA ART ALLIANCE

NOTES TO FINANCIAL STATEMENTS

6. Line of Credit and Long Term Debt

DRAFT

The Alliance had a \$50,000 unsecured line of credit with a bank with interest at the bank's prime lending rate (3.25% at August 31, 2014). The outstanding balance at August 31, 2014 was \$49,948. On September 22, 2014, the Alliance refinanced the line of credit through a term loan with the bank. The loan is payable in monthly installments of \$1,009 with interest at 7.75%. The final payment is due September 2019. As the Alliance had the ability and intent to refinance the line of credit at August 31, 2014, the debt was classified as current and non-current based on the terms of the refinanced debt. The amount outstanding at August 31, 2015 was \$42,185, of which \$9,113 was current.

Following are maturities of long-term debt:

Year ending August 31, 2016	\$ 9,113
2017	9,864
2018	10,668
2019	11,537
Thereafter	<u>1,003</u>
	<u><u>\$ 42,185</u></u>

Interest expense for the years ended August 31, 2015 and 2014 was \$3,521 and \$1,791, respectively.

7. Lease Termination Obligation

The Alliance had a lease with a tenant for restaurant space that was terminated. The Alliance was responsible to reimburse the tenant a percentage of their upfront equipment and fit-out costs upon termination. The amount due is payable in monthly installments of \$2,833 with no interest through May 2019. The Alliance did not make all of its required payments in the year ended August 31, 2015 and is in default on the agreement. It has continued to make payments as funds have been available. The tenant has made no plans to accelerate the obligation. The amount due to the tenant was \$150,167 and \$161,500 as of August 31, 2015 and 2014, respectively.

Following are maturities of payments due for the lease termination obligation:

Year ending August 31, 2016	\$ 56,663
2017	34,000
2018	34,000
2019	<u>25,504</u>
	<u><u>\$ 150,167</u></u>

PHILADELPHIA ART ALLIANCE

NOTES TO FINANCIAL STATEMENTS

11. Leasing Arrangements

DRAFT

The Alliance received rental income amounting to \$179,374 and \$147,912 for the years ended August 31, 2015 and 2014, respectively. Portions of the gallery facilities are rented for private functions under agreement terms that vary by function. Rental income under these agreements was \$15,109 and \$3,335 for the years ended August 31, 2015 and 2014, respectively.

The Alliance entered into an operating lease agreement in September 2013 with a new restaurant expiring September 30, 2018. Under the terms of the agreement, monthly rental payments were \$8,000 beginning October 1, 2013 with annual escalations. Rental income earned under this lease including taxes and utilities was \$170,016 for the year ended August 31, 2015. A lease commencement payment of \$25,000 to be applied against the cost of restaurant improvements was also received upon the execution of the lease. The following is a schedule by years of approximate future minimum rentals at August 31, 2015 for each of the next five years:

Year ending August 31, 2016	\$ 107,500
2017	113,500
2018	119,500
2019	10,000

PHILADELPHIA ART ALLIANCE

NOTES TO FINANCIAL STATEMENTS

13. Risks and Uncertainties

DRAFT

The Alliance invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amount reported in the statement of financial position.

14. Concentrations

The Alliance received 35% of its non-investment gross revenue for both the years ended August 31, 2015 and 2014 from its annual fundraising event which provides funding for, among other things, exhibitions and educational programs. The Alliance expects to continue holding this annual fundraising event. The Alliance received 41% and 33% of its non-investment gross revenue for the years ended August 31, 2015 and 2014, respectively, from rental income (See Note 11).

The Alliance maintains its accounts with various banks. Cash balances with each bank in excess of \$250,000 in any one bank exceed the insurable limit as allowed by FDIC. Total cash balances did not exceed insurable limits at August 31, 2015.

The Alliance maintains an investment account with a brokerage firm containing cash, bonds and equities. The account is insured by the Securities Investor Protection Corporation up to \$500,000. In addition, the brokerage firm insures each account with a private insurance company up to \$150 million. The account balance, including money market funds, at August 31, 2015 was \$486,065.

PHILADELPHIA ART ALLIANCE

SCHEDULE OF EXPENSES

YEAR ENDED AUGUST 31, 2015

	Program Services Expenses	Fundraising Expenses	General and Administrative Expenses	Total
Advertising	\$ 1,200	\$ 91	\$ 213	\$ 1,504
Bank fees	1,812	830	1,936	4,578
Depreciation	21,249	9,737	22,685	53,671
Dues and subscriptions	349	160	373	882
Exhibitions and program services	16,021	9,808	3,933	29,762
Insurance	8,848	4,054	9,445	22,347
Interest	1,394	639	1,488	3,521
Investment expenses	1,613	739	1,723	4,075
Marketing materials and services	4,168	4,523	-	8,691
Membership	-	7,336	-	7,336
Office expense and postage	9,907	4,720	1,170	15,797
Personnel	88,454	40,532	94,430	223,416
Printing	137	63	146	346
Professional fees	7,445	3,412	7,948	18,805
Programs	1,168	-	-	1,168
Real estate taxes	128	58	136	322
Repairs and maintenance	13,992	6,411	14,938	35,341
Security service	1,544	707	1,648	3,899
Local taxes and licenses	1,475	676	1,574	3,725
Telephone	2,069	948	2,209	5,226
Travel and entertainment	44	20	48	112
Utilities	29,857	13,681	31,875	75,413
Spring at the Mansion and other special events	-	21,504	-	21,504
	<u>\$ 212,874</u>	<u>\$ 130,649</u>	<u>\$ 197,918</u>	<u>\$ 541,441</u>