

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

**TABLE OF CONTENTS**

---

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3 – 4
Consolidated Statements of Functional Expenses	5 – 6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8 – 21



## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
National Foundation for Advancement in the Arts, Inc. and Subsidiaries  
d/b/a National YoungArts Foundation

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of National Foundation for Advancement in the Arts, Inc. and Subsidiaries d/b/a National YoungArts Foundation (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Foundation for Advancement in the Arts, Inc. and Subsidiaries d/b/a National YoungArts Foundation as of June 30, 2018 and 2017, and the consolidated results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Morrison, Brown, Argiz & Farra*

Miami, Florida  
November 6, 2018

An independent member of Baker Tilly International

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 1,907,258	\$ 582,838
Pledges receivable, net	763,703	177,036
Other receivables, net	46,513	1,779
Prepaid expenses and other assets	223,968	228,032
Interest in charitable remainder unitrust	127,254	118,894
Investments	45,441,285	43,871,419
Artwork	-	2,000,000
Property and equipment, net	22,764,078	25,732,228
TOTAL ASSETS	<b>\$ 71,274,059</b>	<b>\$ 72,712,226</b>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES		
Accounts payable, accrued expenses and other liabilities	\$ 610,048	\$ 667,066
Artwork pledged to third party	-	2,000,000
TOTAL LIABILITIES	610,048	2,667,066
COMMITMENTS (NOTE 14)		
NET ASSETS		
Unrestricted:		
Undesignated	24,567,084	26,115,971
Board-designated	2,709,806	2,499,077
Total Unrestricted	27,276,890	28,615,048
Temporarily restricted	31,545,772	29,597,123
Permanently restricted	11,841,349	11,832,989
TOTAL NET ASSETS	70,664,011	70,045,160
TOTAL LIABILITIES AND NET ASSETS	<b>\$ 71,274,059</b>	<b>\$ 72,712,226</b>

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT:</b>								
Contributions	\$ 10,246,063	\$ 588,703	\$ -	\$ 10,834,766	\$ 8,927,971	\$ -	\$ -	\$ 8,927,971
Government grants	188,250	-	-	188,250	219,353	-	-	219,353
In-kind contributions	366,443	-	-	366,443	413,284	-	-	413,284
<b>TOTAL SUPPORT</b>	<b>10,800,756</b>	<b>588,703</b>	<b>-</b>	<b>11,389,459</b>	<b>9,560,608</b>	<b>-</b>	<b>-</b>	<b>9,560,608</b>
<b>SPECIAL EVENTS:</b>								
Current year underwritings and tickets and sales	2,018,337	-	-	2,018,337	1,926,981	-	-	1,926,981
<b>OTHER REVENUES:</b>								
Gain on insurance proceeds (NOTE 6)	41,207	-	-	41,207	-	-	-	-
Applications	91,931	-	-	91,931	99,899	-	-	99,899
Other revenues and gains, net	99,846	-	8,360	108,206	70,671	-	15,545	86,216
<b>TOTAL OTHER REVENUES</b>	<b>232,984</b>	<b>-</b>	<b>8,360</b>	<b>241,344</b>	<b>170,570</b>	<b>-</b>	<b>15,545</b>	<b>186,115</b>
<b>NET INVESTMENT GAINS</b>	<b>210,732</b>	<b>2,940,746</b>	<b>-</b>	<b>3,151,478</b>	<b>232,123</b>	<b>3,721,300</b>	<b>-</b>	<b>3,953,423</b>
Net Assets Released from restrictions	1,580,800	(1,580,800)	-	-	2,264,996	(2,264,996)	-	-
<b>TOTAL SUPPORT, SPECIAL EVENTS, OTHER REVENUES AND GAINS</b>	<b>\$ 14,843,609</b>	<b>\$ 1,948,649</b>	<b>\$ 8,360</b>	<b>\$ 16,800,618</b>	<b>\$ 14,155,278</b>	<b>\$ 1,456,304</b>	<b>\$ 15,545</b>	<b>\$ 15,627,127</b>

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)  
FOR THE YEARS ENDED JUNE 30,

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
YoungArts program	\$ 9,563,624	\$ -	\$ -	\$ 9,563,624	\$ 9,102,955	\$ -	\$ -	\$ 9,102,955
General and administrative	1,490,307	-	-	1,490,307	1,500,627	-	-	1,500,627
Development	2,348,427	-	-	2,348,427	2,553,408	-	-	2,553,408
TOTAL EXPENSES	13,402,358	-	-	13,402,358	13,156,990	-	-	13,156,990
CHANGE IN NET ASSETS BEFORE IMPAIRMENT LOSS ON CONSTRUCTION IN PROGRESS	1,441,251	1,948,649	8,360	3,398,260	998,288	1,456,304	15,545	2,470,137
IMPAIRMENT LOSS ON CONSTRUCTION IN PROGRESS	(2,779,409)	-	-	(2,779,409)	-	-	-	-
CHANGE IN NET ASSETS	(1,338,158)	1,948,649	8,360	618,851	998,288	1,456,304	15,545	2,470,137
NET ASSETS - BEGINNING OF YEAR	28,615,048	29,597,123	11,832,989	70,045,160	27,616,760	28,140,819	11,817,444	67,575,023
NET ASSETS - END OF YEAR	<b>\$ 27,276,890</b>	<b>\$ 31,545,772</b>	<b>\$ 11,841,349</b>	<b>\$ 70,664,011</b>	<b>\$ 28,615,048</b>	<b>\$ 29,597,123</b>	<b>\$ 11,832,989</b>	<b>\$ 70,045,160</b>

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018

	YoungArts Program	Supporting Services		Total
		General and Administrative	Development	
Salaries and benefits	\$ 3,338,659	\$ 544,807	\$ 796,216	\$ 4,679,682
Advertising	98,435	118	-	98,553
Bad debt expense	-	27,500	-	27,500
Bank charges and fees	435	6,981	17,993	25,409
Campus operating expenses	529,041	60,118	12,024	601,183
Depreciation	483,570	54,951	10,990	549,511
Equipment rentals and maintenance	182,966	116,467	17,811	317,244
Grants, awards and stipends	655,023	-	14,930	669,953
Independent contractors	627,996	86,119	180,765	894,880
Insurance and taxes	404,336	45,887	9,177	459,400
In-kind expenses	27,344	339,099	-	366,443
Materials, supplies and services	710,514	31,778	106,973	849,265
Postage and distribution	48,928	1,464	2,621	53,013
Printing, design and photo	213,371	-	56,444	269,815
Professional fees	277,084	130,220	75,775	483,079
Program and event consultants	553,458	-	17,611	571,069
Rental facilities	120,139	-	-	120,139
Special events	34,356	234	978,571	1,013,161
Telephone	59,139	-	-	59,139
Travel	1,198,830	44,564	50,526	1,293,920
<b>TOTAL EXPENSES</b>	<b>\$ 9,563,624</b>	<b>\$ 1,490,307</b>	<b>\$ 2,348,427</b>	<b>\$ 13,402,358</b>

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2017

	YoungArts Program	Supporting Services		Total
		General and Administrative	Development	
Salaries and benefits	\$ 3,272,321	\$ 484,375	\$ 887,119	\$ 4,643,815
Advertising	212,750	-	-	212,750
Bad debt expense	-	151,954	-	151,954
Bank charges and fees	-	20,337	-	20,337
Campus operating expenses	442,474	55,309	55,309	553,092
Depreciation	399,760	49,970	49,970	499,700
Equipment rentals and maintenance	111,046	92,908	-	203,954
Grants, awards and stipends	991,296	-	-	991,296
Independent contractors	732,810	65,000	133,338	931,148
Insurance and taxes	313,018	39,127	39,127	391,272
In-kind expenses	73,442	339,842	-	413,284
Materials, supplies and services	595,092	14,396	162,167	771,655
Postage and distribution	93,256	-	-	93,256
Printing, design and photo	188,534	-	-	188,534
Professional fees	310,975	135,058	-	446,033
Program and event consultants	248,403	-	-	248,403
Publishing and website	6,000	-	-	6,000
Rental facilities	131,598	-	-	131,598
Special events	-	-	1,164,180	1,164,180
Telephone	63,608	-	-	63,608
Travel	916,572	52,351	62,198	1,031,121
<b>TOTAL EXPENSES</b>	<b>\$ 9,102,955</b>	<b>\$ 1,500,627</b>	<b>\$ 2,553,408</b>	<b>\$ 13,156,990</b>

The accompanying notes are an integral part of these consolidated financial statements.



**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 618,851	\$ 2,470,137
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	549,511	499,700
Provision for uncollectible pledges	27,500	151,954
Pledge present value discount adjustment	(6,897)	-
Unrealized gains from investments, net	(716,799)	(1,921,104)
Realized gains from investments, net	(1,582,388)	(1,319,205)
Unrealized gains in interest in charitable remainder unitrust	(8,360)	(15,545)
Impairment loss on construction in progress	2,779,409	-
Changes in assets:		
Restricted cash	-	65,000
Pledges receivable, net	(607,270)	(197,263)
Other receivables, net	(44,734)	39,790
Prepaid expenses and other assets	4,064	20,164
Changes in liabilities:		
Accounts payable, accrued expenses and other liabilities	(57,018)	(83,148)
<b>TOTAL ADJUSTMENTS</b>	<b>337,018</b>	<b>(2,759,657)</b>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>955,869</b>	<b>(289,520)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(360,770)	(330,408)
Proceeds from investments, net	729,321	1,486,875
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>368,551</b>	<b>1,156,467</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of line of credit	-	(523,530)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>-</b>	<b>(523,530)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,324,420</b>	<b>343,417</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>582,838</b>	<b>239,421</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 1,907,258</b>	<b>\$ 582,838</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW TRANSACTIONS:</b>		
Interest paid	\$ -	\$ 7,992
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:</b>		
In-kind	\$ 366,443	\$ 413,284
Donation of artwork to third party	\$ 2,000,000	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

**Organization Structure**

The National Foundation for Advancement in the Arts, Inc. d/b/a National YoungArts Foundation (“NFAA”) is a non-profit organization under the Florida Not-For-Profit Corporation Act and is exempt from income taxes according to provisions of Section 501(c)(3) of the Internal Revenue Code. The National YoungArts Foundation (“YoungArts”) identifies and nurtures the most accomplished young artists in the visual, literary, design and performing arts and assists them at critical junctures in their educational and professional development. YoungArts aspires to create a community of alumni that provides a lifetime of encouragement, opportunity and support. Management believes the NFAA qualifies for the charitable contribution deduction and has been classified as a foundation that is not a private foundation.

On August 28, 2013, NFAA became the sole member of National YoungArts Foundation Campus, LLC (the “LLC”). NFAA contributed 100% of its interest in its newly purchased facilities to the LLC in exchange for a 100% interest in the LLC. As a limited liability company, liability is limited to amounts reflected in the member account. The LLC shall have a perpetual existence until it is dissolved and its affairs are wound up in accordance with the respective operating agreement. On June 30, 2016, NFAA transferred its interest in the LLC to the National YoungArts Foundation Supporting Organization (“NYFSO”), a separate non-profit organization. The National YoungArts Foundation Supporting Organization, through its subsidiary National YoungArts Foundation Campus, LLC, then entered into a lease agreement with NFAA whereby NFAA rents the campus’ real and personal property (including buildings, land and furniture) from the LLC.

**Basis of Accounting**

The consolidated financial statements include the accounts of the National Foundation for Advancement in the Arts, Inc., the National YoungArts Foundation Supporting Organization, and the latter’s subsidiary, the National YoungArts Foundation Campus, LLC. (collectively referred to as the “Foundation”). National YoungArts Foundation Supporting Organization owns 100% of the membership interest in National YoungArts Foundation Campus, LLC, and the LLC owns the campus’ real property and improvements. The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All intercompany accounts and transactions have been eliminated in the consolidation.

**Consolidated Financial Statement Presentation**

Net assets and revenues, gains and losses are classified into three classes of net assets based on the existence or absence of donor-imposed restrictions. The three classes of net asset categories are as follows:

**Unrestricted** – Net assets which are free of donor-imposed restrictions; all revenues, gains, and losses that are not changes in temporarily restricted or permanently restricted net assets. A portion of these net assets are designated by the Board for future investment and are reflected on the Consolidated Statements of Financial Position as unrestricted net assets - board designated.

**Temporarily Restricted** – Net assets where the use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Foundation pursuant to those stipulations.

**Permanently Restricted** – Net assets where the use by the Foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Concentration of Revenue Source**

For the years ended June 30, 2018 and 2017, two related entities, a trust for the benefit of an individual and a corporation, provided more than 10% of total support, special events and other revenues, as follows:

<u>Recipient Entity</u>	<u>2018</u>		<u>2017</u>	
	<u>Support</u>	<u>Percentage of Total Support</u>	<u>Support</u>	<u>Percentage of Total Support</u>
NFAA	\$ 6,386,434	56%	\$ 6,298,259	64%
NYFSO	\$ 2,142,077	98%	\$ 1,825,758	100%

This includes in-kind contributions of approximately 3% and 4% for the years ended June 30, 2018 and 2017, respectively. The Foundation relies upon the related entities continued support to fund operations.

**Cash and Cash Equivalents**

The Foundation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents primarily consist of general checking, payroll and savings accounts. Money market funds which are included within investments are not included within cash and cash equivalents.

**Restricted Cash**

Restricted cash consisted of cash and money market funds temporarily restricted for arts education programs.

**Pledges Receivable, Net**

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Pledges determined to be uncollectible during the year in which such pledges are received are shown as a reduction of contributions. Pledges determined to be uncollectible subsequent to the year in which such pledges are received are charged to the allowance for uncollectible pledges. The allowance for uncollectible pledges is based on the Foundation's historical pledge collection experience and management's evaluation of other pertinent factors. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in more than one year are discounted using a market rate of return and are recorded at net present value.

**Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Consolidated Statements of Financial Position. Investment gains (including gains and losses on investments, interest and dividends) are included in the Consolidated Statements of Activities as increases in unrestricted net assets unless the gains are restricted by donor or law. Investments in alternative investments are valued using the most recent valuation available from the respective external fund manager.

**Prepaid Expenses and Other Assets**

Prepaid expenses and other assets consist primarily of amounts expended for insurance and other expenses.

**Property and Equipment, Net**

All acquisitions of furniture, equipment and leasehold improvements in excess of \$5,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Furniture and equipment are recorded at cost, or if contributed, at fair value at the time of the donation and depreciated using the straight-line method over the estimated useful lives of the assets.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

**Property and Equipment, Net (Continued)**

When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and gains or losses, if any, are recognized currently. Repairs and maintenance are charged to expense as incurred. Donations of property and equipment are recorded as support at their estimated fair value. All assets classified as construction in progress are not depreciated until they are placed into service.

Useful lives are as follows:

Building and building improvements	39 years
Furniture and equipment	3 – 7 years
Vehicle	5 years
Website and software	5 years

**Impairment of Long-Lived Assets**

The carrying value of long-lived assets is reviewed if the facts and circumstances, such as significant declines in revenues, earnings or cash flows or material adverse changes in the business climate indicate that they may be impaired. The Foundation performs its review by comparing the carrying amounts of long-lived assets to the estimated undiscounted cash flows relating to such assets. If any impairment in the value of the long-lived assets is indicated, the carrying value of the long-lived assets is adjusted to reflect such impairment based on the fair value of the impaired assets or an estimate of fair value based on discounted cash flows. During the year ended June 30, 2018, the Foundation determined that the construction in progress was not going to be completed with the current plans and recorded an impairment loss of \$2,779,409 (NOTE 6). No write-downs for impairment of the construction in progress were recorded during the year ended June 30, 2017.

**Contributions**

Contributions are recorded at their estimated fair values on the date of the contribution. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. However, donor-restricted contributions whose restrictions are met within the same fiscal year are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets through the release from restrictions.

**In-Kind Contributions**

Donated services are recognized as contributions if the services create or enhance a non-financial asset, or require specialized skills and are performed by people with those skills or the costs of such services are paid on behalf of the Foundation, and such services would otherwise be purchased by the Foundation. The Foundation records these contributions at fair value and in the period the services are provided as both support and expense in the Consolidated Statements of Activities. Accordingly, the Foundation recognized approximately \$366,000 and \$413,000 of in-kind contributions during the years ended June 30, 2018 and 2017, respectively. Volunteers contribute a wide array of services supporting all functions of the Foundation; however, these services do not meet the criteria for recognition.

**Expense Classifications**

YoungArts Program: YoungArts encourages young artists by creating opportunities for them to advance in their educational pursuits. The YoungArts program serves the fifty states and territories of the United States of America. The national YoungArts program is complimented by regional programs in New York, Los Angeles and Miami. The arts education program focuses on furthering arts education by providing master classes from professional artists and mentorship from expert resident advisors to aspiring young artists as well as providing young artists performance opportunities. Program expenses include the costs of events that are program-related, including master teacher fees.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

**Expense Classifications (Continued)**

General and Administrative: Expenses include the costs of operations of the Foundation which do not relate specifically to other functional categories but benefit all functions indirectly.

Development: Expenses include the costs of fundraising. These costs include payroll, occupancy and office expenses as well as the costs of certain fundraising events.

**Expense Allocation**

Expenses are allocated to the various functional categories based on the purpose achieved by each expenditure. Payroll, occupancy and office expenses of employees whose time may benefit more than one activity are allocated based on an estimate of percentage of time devoted to each function and other criteria based on management's estimates.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Foundation 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These include, but are not limited to, the determination of the net realizable value of receivables, fair market value of investments and the useful lives of acquired assets. Actual results could vary from the estimates that were used.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and investments.

At times, such balances may be in excess of the insurance limits of the Federal Deposit Insurance Corporation. The Foundation has not experienced losses on its cash and cash equivalents.

Investments are subject to both credit and market risks. Credit risk is the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is the possibility that fluctuations in the investment market will impact the value of the portfolio. The Foundation has an investment policy and has hired professional investment advisors who report to the board of trustees and management and periodically review the investment portfolio to monitor these risks.

**Tax Status**

The National Foundation for Advancement in the Arts, Inc. and the National YoungArts Foundation Supporting Organization are separately registered with the Internal Revenue Service as non-profit organizations under Internal Revenue Code Section 501(c)(3) and, accordingly, are exempt from income taxes. The wholly-owned subsidiary, National YoungArts Foundation Campus, LLC is considered a disregarded entity.

The Foundation recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Foundation files income tax returns. The Foundation is generally no longer subject to U.S. Federal or State examinations by tax authorities for fiscal years before 2015.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

**Adopted Accounting Pronouncement**

Fair Value Measurement

In May 2015, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update that removes the requirement to include investments in the fair value hierarchy for which fair value is measured at net asset value (“NAV”) using the practical expedient. The update also changes certain disclosure requirements. The update is effective retrospectively for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Foundation has applied the provisions retrospectively. The adoption is reflected in the fair value footnote (NOTE 5) to the financial statements and certain disclosures that are no longer required have been removed. There were no material effects on the Consolidated Statements of Financial Position or the Consolidated Statements of Activities.

**Recent Accounting Pronouncements**

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2019 and in interim periods in annual periods beginning after December 15, 2020. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2017. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued an accounting standard update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with earlier application permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements (Continued)**

Restricted Cash

In November 2016, the FASB issued an accounting standard update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

**Reclassification**

Certain items on the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

**Subsequent Events**

The Foundation has evaluated subsequent events through November 6, 2018, which is the date the consolidated financial statements were available to be issued.

**2. PLEDGES RECEIVABLE, NET**

Pledges receivable are summarized as follows at June 30,:

	<u>2018</u>	<u>2017</u>
Gross pledges receivable	\$ 857,500	\$ 222,036
Less: Allowance for doubtful accounts	(72,500)	(45,000)
Less: Discount on long-term pledges	(21,297)	-
Pledges receivable, net	<u>\$ 763,703</u>	<u>\$ 177,036</u>

Pledges receivable with payment terms in excess of one year have been discounted using a market rate of interest (approximately 2.9%) to reflect their estimated present value. Pledges receivable are unsecured and are primarily from South Florida residents.

Payments due on pledges receivable are as follows:

**Years Ending June 30,**

2019	\$ 707,500
2020	150,000
	<u>\$ 857,500</u>

The allowance for doubtful accounts at June 30, 2018 and 2017, was \$72,500 and \$45,000, respectively. Bad debt expense for the years ended June 30, 2018 and 2017, was approximately \$28,000 and \$152,000, respectively.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**3. INTEREST IN CHARITABLE REMAINDER UNITRUST**

---

A donor established an irrevocable trust naming the Foundation as a remainder beneficiary of a charitable remainder unitrust. Under terms of the trust, the Foundation is to receive the lesser of \$500,000 or 25% of the trust's assets upon the death of the last surviving beneficiary. Based on a joint life and last survivor expectancy of approximately 17 and 18 years as of June 30, 2018 and 2017, respectively, at a 5% rate, the present value of future distributions is estimated to be \$127,254 and \$118,894 at June 30, 2018 and 2017, respectively. This amount is recorded as interest in charitable remainder unitrust in the Consolidated Statements of Financial Position. During the years ended June 30, 2018 and 2017, the charitable remainder unitrust appreciated by \$8,360 and \$15,545, respectively, which is included in other revenues and gains, net in the Consolidated Statements of Activities.

**4. INVESTMENTS**

---

The Foundation has invested in the following funds at June 30,:

	<u>2018</u>	<u>2017</u>
Money market	\$ 1,879,115	\$ 1,622,720
Common stocks	24,342,615	21,745,599
Mutual funds	12,443,470	12,224,195
Alternative strategies	<u>6,776,085</u>	<u>8,278,905</u>
Total investments	<b><u>\$ 45,441,285</u></b>	<b><u>\$ 43,871,419</u></b>

Total investment gains from cash equivalents and investments is comprised of the following for the years ended June 30,:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 1,077,697	\$ 939,873
Net realized gains	1,582,388	1,319,205
Net unrealized gains	716,799	1,921,104
Investment fees	<u>(225,406)</u>	<u>(226,759)</u>
Total investment gain	<b><u>\$ 3,151,478</u></b>	<b><u>\$ 3,953,423</u></b>

**5. FAIR VALUE MEASUREMENTS**

---

The FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, established a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).



**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**5. FAIR VALUE MEASUREMENTS (CONTINUED)**

---

The three levels of the fair value hierarchy under the FASB ASC are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's 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.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

*Money market:* Valued at cost, which approximates fair value.

*Common stocks:* Valued at the closing price reported in the active market in which the individual securities are traded.

*Mutual funds:* Valued at the closing price reported in the active market in which the individual securities are traded.

*Alternative strategies:* Valued by the underlying investments of the funds and are valued at fair value on a monthly basis by the investment managers. Certain funds are redeemable at their NAV per share on a monthly basis. The fair value of the investments are a publicly quoted pricing input used in determining the NAV of the alternative strategies, which is not publicly quoted. The Foundation considers the length of time until the investment is redeemable, including notice and lock up periods or any other restriction on the disposition of the investment. The Foundation also considers the nature of the portfolios of the underlying investments and their ability to liquidate their underlying investments. The NAV per share is used as a practical expedient to estimate the fair value of the alternative strategies as long as certain requirements are met.

Fair value of shares of underlying alternative strategies equals the number of shares of the respective underlying investments multiplied by the closing NAV per share quoted by that investment and held by the Foundation at year end.

The preceding methods 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 Foundation believes its valuation methods are 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 values assigned to certain investments are based upon currently available information and do not necessarily represent amounts that may ultimately be realized. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be material.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**5. FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table represents the Foundation's financial instruments measured at fair value on a recurring basis for each of the fair value hierarchy levels:

		<b>Fair Value Measurements at June 30, 2018</b>		
<b>Description</b>	<b>Fair Value</b>	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Other Unobservable Inputs (Level 3)</b>
Assets:				
Money market, at fair value	\$ 1,879,115	\$ 1,879,115	\$ -	\$ -
Common stocks, at fair value	24,342,615	24,342,615	-	-
Mutual funds, at fair value	12,443,470	12,443,470	-	-
Total assets in the fair value hierarchy	38,665,200	38,665,200	-	-
Investments measured at net asset value *	6,776,085	-	-	-
<b>Total assets at fair value</b>	<b>\$ 45,441,285</b>	<b>\$ 38,665,200</b>	<b>\$ -</b>	<b>\$ -</b>

		<b>Fair Value Measurements at June 30, 2017</b>		
<b>Description</b>	<b>Fair Value</b>	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Other Unobservable Inputs (Level 3)</b>
Assets:				
Money market, at fair value	\$ 1,622,720	\$ 1,622,720	\$ -	\$ -
Common stocks, at fair value	21,745,599	21,745,599	-	-
Mutual funds, at fair value	12,224,195	12,224,195	-	-
Total assets in the fair value hierarchy	35,592,514	35,592,514	-	-
Investments measured at net asset value *	8,278,905	-	-	-
<b>Total assets at fair value</b>	<b>\$ 43,871,419</b>	<b>\$ 35,592,514</b>	<b>\$ -</b>	<b>\$ -</b>

(\*) In accordance with Subtopic 820-10, certain investments that are measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy.

**Net Asset Value per Share**

Alternative strategies include investments in limited partnerships where the Foundation has the right to withdraw its investments at least quarterly, or annually after the expiration of "lock-up" periods of one to three years pursuant to the respective offering memorandums. The underlying investments of the funds are valued at fair value on a quarterly basis by the partnerships for which fair value is measured using the NAV per share practical expedient. Also included in Alternative strategies are investments in offshore funds that include investments in hedge funds. As part of the Alternative strategies investment structure, initial capital call commitments are required.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**5. FAIR VALUE MEASUREMENTS (CONTINUED)**

**Net Asset Value per Share (Continued)**

	<u>Fair Value as of 6/30/2018</u>	<u>Unfunded Commitments as of 6/30/2018</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Double Black Diamond, Ltd (a)	\$ 2,477,273	\$ -	Various	60 Days
Alphakeys Renaissance Institutional Equities Fund II, LLC (b)	2,376,867	-	Quarterly	45 Days
Locust Wood Capital Offshore, Ltd (c)	<u>1,921,945</u>	<u>-</u>	Quarterly	45 Days
<b>Total</b>	<b><u>\$ 6,776,085</u></b>	<b><u>\$ -</u></b>		

The following is a summary of the investment strategies of the investments valued using the NAV per share practical expedient:

- (a) The fund's objective is to provide investors with capital appreciation through allocation of its assets among a diverse group of money managers. Investment strategies include equity, debt securities, options, futures, forwards, swap contracts and other equity derivatives of both United States of America and foreign issuers.
- (b) The fund was formed for the purpose of investing in a widely diversified portfolio consisting exclusively of U.S. and non-U.S. equity securities that are publicly traded on the U.S. securities exchanges, and expects holding periods to average more than one year. The fund may also invest in stock index futures for risk management purposes. The fund seeks to achieve superior rates of return with low volatility and a relatively low beta through investments in a widely diversified portfolio.
- (c) The fund is an offshore feeder fund in a master structure. The fund's objective is to invest substantially all its assets in Locust Wood Capital, L.P.

**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consists of the following at June 30,:

	<u>2018</u>	<u>2017</u>
Land	\$ 11,892,756	\$ 11,892,756
Building and building improvements	11,742,554	11,914,028
Furniture and equipment	1,027,342	1,027,342
Construction in progress	-	2,779,409
Website and software	319,200	65,000
Vehicle	<u>83,575</u>	<u>83,575</u>
	25,065,427	27,762,110
Accumulated depreciation	<u>(2,301,349)</u>	<u>(2,029,882)</u>
	<b><u>\$ 22,764,078</u></b>	<b><u>\$ 25,732,228</u></b>

Depreciation expense for the years ended June 30, 2018 and 2017 totaled \$549,511 and \$499,700, respectively.

**Impairment of Construction in Progress**

During the year ended June 30, 2018, management determined the original construction in progress was impaired due to the plans changing and wrote down construction in progress. The total impairment loss totaled \$2,779,409 and is reflected in the Consolidated Statements of Activities for the year ended June 30, 2018.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**6. PROPERTY AND EQUIPMENT, NET (CONTINUED)**

**Natural Disaster and Insurance Proceeds**

In September 2017, the Company suffered minor property damage due to Hurricane Irma. As a result, the Company has been awarded through June 30, 2018, insurance proceeds of approximately \$92,000 for property damage, which has been applied against the cost to fund repairs and related expenses to restore the property to its original condition. The insurance proceeds awarded for property damage are included in "Gain on insurance proceeds" on the accompanying Consolidated Statements of Activities for the year ended June 30, 2018.

Gain on insurance proceeds consists of the following for the year ended June 30, 2018:

Gross insurance proceeds	\$ 91,915
Repairs and related expenses	<u>(50,708)</u>
	<b><u>\$ 41,207</u></b>

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted are restricted for use in arts education programs and consisted of the following as of June 30,:

	<u>2018</u>	<u>2017</u>
Time restricted contribution	\$ 588,703	\$ -
Donor-restricted endowment funds	<u>30,957,069</u>	<u>29,597,123</u>
	<b><u>\$ 31,545,772</u></b>	<b><u>\$ 29,597,123</u></b>

**8. BOARD DESIGNATED NET ASSETS**

The Foundation has received various donations throughout the years from its donors which have been unrestricted as to purpose or time. Although these funds are included in unrestricted net assets, management and the Board of Trustees segregated these funds so that the principal is designated not to be expended without board approval. These funds totaled \$2,709,806 and \$2,499,077 as of June 30, 2018 and 2017, respectively.

**9. ENDOWMENTS**

**Interpretation of Relevant Law**

The Foundation's endowment consists of several investment funds established for a variety of purposes. Its endowment includes donor-restricted and board-designated endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). The Foundation has interpreted the FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the FUPMIFA.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**9. ENDOWMENTS (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

In accordance with FUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment fund earnings:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

**Summary of Endowment Net Assets at June 30, 2018:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 30,957,069	\$ 11,841,349	\$ 42,798,418
Board-designated endowment funds	2,709,806	-	-	2,709,806
Total endowment net assets	<b>\$ 2,709,806</b>	<b>\$ 30,957,069</b>	<b>\$ 11,841,349</b>	<b>\$ 45,508,224</b>

**Summary of Endowment Net Assets at June 30, 2017:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 29,597,123	\$ 11,832,989	\$ 41,430,112
Board-designated endowment funds	2,499,077	-	-	2,499,077
Total endowment net assets	<b>\$ 2,499,077</b>	<b>\$ 29,597,123</b>	<b>\$ 11,832,989</b>	<b>\$ 43,929,189</b>

**Changes in Endowment Net Assets for the year ended June 30, 2018:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 2,499,077	\$ 29,597,123	\$ 11,832,989	\$ 43,929,189
Net investment gains	210,729	2,940,749	8,360	3,159,838
Released from restriction and appropriated for expenditure	-	(1,580,803)	-	(1,580,803)
Endowment net assets, ending	<b>\$ 2,709,806</b>	<b>\$ 30,957,069</b>	<b>\$ 11,841,349</b>	<b>\$ 45,508,224</b>

**Changes in Endowment Net Assets for the year ended June 30, 2017:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 2,266,908	\$ 28,075,819	\$ 11,817,444	\$ 42,160,171
Net investment gains	232,169	3,721,254	15,545	3,968,968
Released from restriction and appropriated for expenditure	-	(2,199,950)	-	(2,199,950)
Endowment net assets, ending	<b>\$ 2,499,077</b>	<b>\$ 29,597,123</b>	<b>\$ 11,832,989</b>	<b>\$ 43,929,189</b>

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**9. ENDOWMENTS (CONTINUED)**

---

**Interpretation of Relevant Law (Continued)**

<b>Permanently Restricted Net Assets:</b>	<b>2018</b>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by FUPMIFA	<b>\$ 11,841,349</b>

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2018 or 2017. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets to the extent that the deficiencies fall below the permanently restricted corpus.

**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets on an inflation-adjusted basis. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that achieve the majority of the gains of the S&P 500 while limiting the negative returns caused by decreases in the S&P 500, by assuming a moderate level of investment risk and limiting volatility. The Foundation expects its endowment funds, over time, to provide a rate of return in excess of the original permanently restricted principal. Actual returns in any given year may vary.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term objectives on an inflation adjusted basis with moderate volatility, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation's policy is to appropriate 5% of the average fiscal year-end endowment fund balance for the prior three years for distribution in the following fiscal year which totaled \$428,800 and \$720,000 for the years ended June 30, 2018 and 2017, respectively. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow, net of distributions, at an average of 3.25% percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**10. RETIREMENT PLAN**

---

The Foundation has a defined contribution plan (the "Plan") covering all full time employees over the age of 21 with at least one year of service. The Plan conforms to the provisions set by Internal Revenue Code Section 403(b), Defined Contribution (Money Purchase) Retirement Plan. The Foundation matches participants' contributions to the Plan dollar-for-dollar up to 5% of the employee's salary and the amount is fully vested when the contribution is made. Contributions for the years ended June 30, 2018 and 2017 were \$136,415 and \$108,937, respectively, and are reflected within salaries and benefits in the Consolidated Statements of Functional Expenses.

**NATIONAL FOUNDATION FOR  
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES  
D/B/A NATIONAL YOUNGARTS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**11. SPECIAL EVENTS**

Revenues and expenses of special events held during the years ended June 30, 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
	<b>Gala Affair</b>	<b>Gala Affair</b>
Revenue:		
Underwriting	\$ 240,050	\$ 487,280
Tickets and sales	1,778,287	1,439,701
Total revenue	2,018,337	1,926,981
Expenses:		
Direct benefits	1,013,161	1,164,180
<b>Net Special Events</b>	<b>\$ 1,005,176</b>	<b>\$ 762,801</b>

**12. ARTWORK GIFT**

In June 2013, the Foundation received a gift of artwork valued at \$2,000,000. Under the terms of the gift agreement, the Foundation was to display the painting in its gallery and use the artwork in its educational programming. The gift agreement specified that the artwork will be loaned or donated (at the option of the Foundation), to the U.S. Department of State Art in Embassies program upon completion of the Embassy's construction. Until such time, the painting was recorded as an asset and liability in the Consolidated Statements of Financial Position as of June 30, 2017 under the captions, "Artwork" and "Artwork pledged to a third party," respectively. During the year ended June 30, 2018, the Foundation donated the artwork to the U.S. Department of State Art in Embassies program. The related asset and liability was removed from the Consolidated Financial Statements at the date of the transfer.

**13. LINE OF CREDIT**

The Foundation had a line of credit with a bank, with maximum borrowings of \$15,000,000 which matured in April 2017. The Foundation did not renew the line of credit with the financial institution. Interest expense under the line of credit was approximately \$0 and \$8,000 for the years ended June 30, 2018 and 2017, respectively.

**14. COMMITMENTS**

**Litigation**

From time to time, the Foundation is involved in legal proceedings arising in the ordinary course of business. The Foundation believes there is no litigation pending against it that could have, individually or in the aggregate, a material adverse effect on its consolidated financial position, results of activities or cash flows.