

# Pendle Hill

Financial Statements  
Years Ended August 31, 2018 and 2017



1835 Market Street, 3rd Floor  
Philadelphia, PA 19103

215/567-7770 | [bbdcpa.com](http://bbdcpa.com)

# PENDLE HILL

## CONTENTS

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INDEPENDENT AUDITOR'S REPORT	1
<b>FINANCIAL STATEMENTS</b>	
<i>Statements of Financial Position</i>	2
<i>Statements of Activities</i>	3
<i>Statements of Cash Flows</i>	5
<i>Notes to Financial Statements</i>	6

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## INDEPENDENT AUDITOR'S REPORT

**Board of Directors  
Pendle Hill  
Wallingford, Pennsylvania**

We have audited the accompanying financial statements of Pendle Hill (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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 Pendle Hill as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*BBD, LLP.*

**Philadelphia, Pennsylvania  
February 7, 2019**

# PENDLE HILL

## STATEMENTS OF FINANCIAL POSITION

August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ 175,160	\$ 217,057
Accounts receivable	47,478	131,607
Contributions receivable	84,312	104,965
Prepaid expenses	77,486	87,252
Inventory	60,063	65,866
Investments	8,528,003	7,253,535
Property and equipment, net	3,025,304	3,087,843
Assets of pooled life income fund	614,378	578,926
Beneficial interest in perpetual trusts	286,200	279,700
Beneficial interest in trust agreements	<u>593,300</u>	<u>565,300</u>
<b>Total assets</b>	<u>\$ 13,491,684</u>	<u>\$ 12,372,051</u>
<b>LIABILITIES</b>		
Note payable	\$ 843,104	\$ 1,133,029
Accounts payable and accrued expenses	16,834	20,542
Annuities payable	25,000	27,700
Deferred revenue	<u>353,714</u>	<u>339,445</u>
<b>Total liabilities</b>	<u>1,238,652</u>	<u>1,520,716</u>
<b>NET ASSETS</b>		
Unrestricted	3,222,725	2,722,700
Temporarily restricted	1,082,847	1,059,446
Permanently restricted	<u>7,947,460</u>	<u>7,069,189</u>
<b>Total net assets</b>	<u>12,253,032</u>	<u>10,851,335</u>
<b>Total liabilities and net assets</b>	<u>\$ 13,491,684</u>	<u>\$ 12,372,051</u>

See accompanying notes

# PENDLE HILL

## STATEMENT OF ACTIVITIES

Year ended August 31, 2018 with comparative totals for 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
<b>REVENUE AND SUPPORT</b>					
Contributions	\$1,099,936	\$ 67,682	\$ -	\$ 1,167,618	\$ 669,741
Tuition, net of scholarships of \$90,878 in 2018 and \$87,464 in 2017	14,347	-	-	14,347	26,477
Sojourner rooms and meals	102,561	-	-	102,561	123,017
Short term education programs	211,194	-	-	211,194	206,179
Conference services	861,788	-	-	861,788	843,417
Rental income	30,100	-	-	30,100	37,400
Youth programs	9,110	-	-	9,110	5,165
Miscellaneous income	85,409	-	-	85,409	71,444
Net assets released from restrictions					
Satisfaction of purpose and time restrictions	226,427	(226,427)	-	-	-
Endowment spending policy	137,125	132,612	(269,737)	-	-
<b>Total revenue and support</b>	<u>2,777,997</u>	<u>(26,133)</u>	<u>(269,737)</u>	<u>2,482,127</u>	<u>1,982,840</u>
<b>EXPENSES</b>					
Salaries and benefits	1,330,568	-	-	1,330,568	1,297,557
Professional fees	72,974	-	-	72,974	76,557
Website/communication	59,561	-	-	59,561	57,737
Office expenses	49,326	-	-	49,326	49,751
Travel	7,891	-	-	7,891	17,549
Supplies	38,712	-	-	38,712	35,650
Utilities	112,858	-	-	112,858	107,006
Repairs and maintenance	59,438	-	-	59,438	63,137
Book store expenses	22,486	-	-	22,486	21,049
Advertising	19,208	-	-	19,208	18,737
Rental expenses	143,761	-	-	143,761	149,930
Insurance	50,695	-	-	50,695	52,232
Real estate taxes	69,596	-	-	69,596	74,224
Honoraria	69,145	-	-	69,145	50,477
Interest	49,430	-	-	49,430	57,673
Depreciation	185,138	-	-	185,138	186,138
Miscellaneous	85,944	-	-	85,944	75,487
<b>Total expenses</b>	<u>2,426,731</u>	<u>-</u>	<u>-</u>	<u>2,426,731</u>	<u>2,390,891</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>					
	<u>351,266</u>	<u>(26,133)</u>	<u>(269,737)</u>	<u>55,396</u>	<u>(408,051)</u>
<b>OTHER CHANGES</b>					
Investment income	146,059	-	1,141,508	1,287,567	729,920
Change in value of beneficial interest in split interest agreements	2,700	49,534	6,500	58,734	36,359
<b>Total other changes</b>	<u>148,759</u>	<u>49,534</u>	<u>1,148,008</u>	<u>1,346,301</u>	<u>766,279</u>
<b>CHANGE IN NET ASSETS</b>					
	<u>500,025</u>	<u>23,401</u>	<u>878,271</u>	<u>1,401,697</u>	<u>358,228</u>
<b>NET ASSETS</b>					
Beginning of year	<u>2,722,700</u>	<u>1,059,446</u>	<u>7,069,189</u>	<u>10,851,335</u>	<u>10,493,107</u>
<b>End of year</b>	<u>\$3,222,725</u>	<u>\$1,082,847</u>	<u>\$7,947,460</u>	<u>\$12,253,032</u>	<u>\$10,851,335</u>

See accompanying notes

# PENDLE HILL

## STATEMENT OF ACTIVITIES

Year ended August 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 577,244	\$ 35,747	\$ 56,750	\$ 669,741
Tuition, net of scholarships of \$87,464	26,477	-	-	26,477
Sojourner rooms and meals	123,017	-	-	123,017
Short term education programs	206,179	-	-	206,179
Conference services	843,417	-	-	843,417
Rental income	37,400	-	-	37,400
Youth programs	5,165	-	-	5,165
Miscellaneous income	71,444	-	-	71,444
Net assets released from restrictions				
Satisfaction of purpose and time restrictions	301,691	(301,691)	-	-
Endowment spending policy	120,048	134,000	(254,048)	-
<b>Total revenue and support</b>	<u>2,312,082</u>	<u>(131,944)</u>	<u>(197,298)</u>	<u>1,982,840</u>
<b>EXPENSES</b>				
Salaries and benefits	1,297,557	-	-	1,297,557
Professional fees	76,557	-	-	76,557
Website/communication	57,737	-	-	57,737
Office expenses	49,751	-	-	49,751
Travel	17,549	-	-	17,549
Supplies	35,650	-	-	35,650
Utilities	107,006	-	-	107,006
Repairs and maintenance	63,137	-	-	63,137
Book store expenses	21,049	-	-	21,049
Advertising	18,737	-	-	18,737
Rental expenses	149,930	-	-	149,930
Insurance	52,232	-	-	52,232
Real estate taxes	74,224	-	-	74,224
Honoraria	50,477	-	-	50,477
Interest	57,673	-	-	57,673
Depreciation	186,138	-	-	186,138
Miscellaneous	75,487	-	-	75,487
<b>Total expenses</b>	<u>2,390,891</u>	<u>-</u>	<u>-</u>	<u>2,390,891</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>	<u>(78,809)</u>	<u>(131,944)</u>	<u>(197,298)</u>	<u>(408,051)</u>
<b>OTHER CHANGES</b>				
Investment income	56,235	-	673,685	729,920
Change in value of beneficial interest in split interest agreements	<u>(4,500)</u>	<u>32,439</u>	<u>8,420</u>	<u>36,359</u>
<b>Total other changes</b>	<u>51,735</u>	<u>32,439</u>	<u>682,105</u>	<u>766,279</u>
<b>CHANGE IN NET ASSETS</b>	<u>(27,074)</u>	<u>(99,505)</u>	<u>484,807</u>	<u>358,228</u>
<b>NET ASSETS</b>				
Beginning of year	<u>2,749,774</u>	<u>1,158,951</u>	<u>6,584,382</u>	<u>10,493,107</u>
<b>End of year</b>	<u>\$ 2,722,700</u>	<u>\$ 1,059,446</u>	<u>\$ 7,069,189</u>	<u>\$ 10,851,335</u>

See accompanying notes

# PENDLE HILL

## STATEMENTS OF CASH FLOWS

Years ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$ 1,401,697	\$ 358,228
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Realized and unrealized gain on investments	(1,117,928)	(558,053)
Contributions restricted for long-term purposes	-	(56,750)
Depreciation	185,138	186,138
Change in value of beneficial interest in split interest agreements	(58,734)	(36,359)
(Increase) decrease in		
Accounts receivable	84,129	3,697
Contributions receivable	20,653	(28,068)
Prepaid expenses	9,766	(74,052)
Inventory	5,803	7,111
Increase (decrease) in		
Accounts payable and accrued expenses	(3,708)	(21,414)
Deferred revenue	351	2,451
<b>Net cash provided by (used for) operating activities</b>	<u>527,167</u>	<u>(217,071)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(693,271)	(115,261)
Proceeds from sale of investments	536,731	416,338
Proceeds from assets held in trust	-	46,134
Acquisition of property and equipment	<u>(122,599)</u>	<u>(56,619)</u>
<b>Net cash provided by (used for) investing activities</b>	<u>(279,139)</u>	<u>290,592</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net repayments on note payable	(289,925)	(37,361)
Collections of contributions restricted for endowment	<u>-</u>	<u>56,750</u>
<b>Net cash provided by (used for) financing activities</b>	<u>(289,925)</u>	<u>19,389</u>
<b>Net increase (decrease) in cash</b>	(41,897)	92,910
<b>CASH</b>		
Beginning of year	<u>217,057</u>	<u>124,147</u>
<b>End of year</b>	<u>\$ 175,160</u>	<u>\$ 217,057</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	<u>\$ 49,430</u>	<u>\$ 57,673</u>

See accompanying notes

# PENDLE HILL

## NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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### (1) NATURE OF OPERATIONS

Pendle Hill was established in 1930 in Wallingford, Pennsylvania as a Quaker study center designed to prepare its adult students for service both in the Religious Society of Friends and in the world. Pendle Hill strives to embody the historic testimonies of the Religious Society of Friends. Central to the vision of the Pendle Hill community and the influence that it seeks to exert in the larger world are: peace, truth-speaking and integrity, equality, simplicity, and reaching out to that of God in every one.

### (2) SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

#### **Financial Statement Presentation**

Pendle Hill reports information regarding its financial position and activities according to the following three classes of net assets:

##### ***Unrestricted net assets***

Net assets which are not subject to donor-imposed restrictions.

##### ***Temporarily restricted net assets***

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of Pendle Hill and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "***net assets released from restrictions.***"

##### ***Permanently restricted net assets***

Net assets that are subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by Pendle Hill.

#### **Estimates**

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

#### **Fair Value Measurements of Assets and Liabilities**

Generally accepted accounting principles ("***GAAP***") define 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 Pendle Hill. Unobservable inputs reflect Pendle Hill'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:



## PENDLE HILL

### NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that Pendle Hill 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 Pendle Hill's own assumptions.

#### **Inventory**

Inventory is stated at the lower of cost or market value, using the first-in, first-out method. It consists primarily of books and pamphlets for resale.

#### **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. Pendle Hill does not charge interest on outstanding balances.

#### **Investments and Investment Income**

Investments in equity securities with readily determinable fair values and all investments in debt securities 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 unrestricted.

Pendle Hill invests in professionally-managed portfolios that contain various types of securities (**See Note 4**). 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.

#### **Property and Equipment**

Property and equipment are carried at cost if purchased, and at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over estimated useful lives of three to ten years for furniture and equipment and twenty-five to thirty years for the leasehold improvements and buildings.

#### **Beneficial Interest in Perpetual Trusts**

The beneficial interest in perpetual trusts is reported at fair value and is equal to Pendle Hill's share of the assets in the trusts.

#### **Beneficial Interest in Trust Agreements**

The beneficial interest in trust agreements is reported at the fair value of the related assets less the present value of the payments expected to be made to other beneficiaries.

# PENDLE HILL

## NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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### Contributions

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as unrestricted.

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

### Tuition Revenue

Tuition revenue is recorded as earned. Tuition associated with years after August 31 is deferred to the next fiscal year. Such revenues collected prior to August 31 are included in deferred revenue in the statement of financial position.

### Income Tax Status

Pendle Hill 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 Pendle Hill's tax-exempt purpose is subject to taxation as unrelated business income. In addition, Pendle Hill qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

GAAP prescribes a minimum recognition threshold that a tax position is required to meet in order to be recognized in the financial statements. Pendle Hill believes that it had no uncertain tax positions as defined in GAAP.

### Concentration of Credit Risk

Financial instruments which potentially subject Pendle Hill to concentration of credit risk are cash, accounts and contributions receivable. Pendle Hill maintains its cash at various high-quality financial institutions. At times, such deposits may exceed federally-insured limits. Accounts receivable is owed from various sources and is expected to be collected in 2019. Contributions receivable consists of a bequest and amounts from individuals and is more fully described in Note 3.

## (3) CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at August 31,:

	<u>2018</u>	<u>2017</u>
Capital campaign	\$ 20,892	\$ 37,250
Other	<u>75,070</u>	<u>69,365</u>
	95,962	106,615
Less allowance for uncollectible contributions receivable	(10,000)	-
Less discount to net present value	<u>(1,650)</u>	<u>(1,650)</u>
Net unconditional promises to give	<u>\$ 84,312</u>	<u>\$104,965</u>
Amount due in:		
Less than one year	\$ 85,073	\$ 89,751
One to five years	<u>10,889</u>	<u>16,864</u>
	<u>\$ 95,962</u>	<u>\$106,615</u>

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## PENDLE HILL

### NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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#### (4) INVESTMENTS

Investments consisted of the following at August 31,:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 728,030	\$ 459,179
Units in the Quaker Growth and Income Fund of Friends Fiduciary Corporation	3,794,364	3,552,747
Corporate bonds	49,045	4,502
Common stocks	3,674,907	3,237,107
Preferred stocks	<u>281,657</u>	<u>-</u>
	<u>\$8,528,003</u>	<u>\$7,253,535</u>

The Quaker Growth and Income Fund (the "**Fund**") is a co-mingled investment fund sponsored by Friends Fiduciary Corporation ("**Fiduciary**"). Fiduciary is a Quaker nonprofit corporation which qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Fiduciary's mission is to provide investment and trusteeship services for Friends meetings, schools and other nonprofit, tax-exempt organizations. The Fund's investment objective is to provide long-term total return by investing its assets in a balanced portfolio of common stocks and fixed income investments.

Investment income was comprised of the following:

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gain	\$1,117,928	\$ 558,053
Interest and dividends	173,831	172,907
Investment management fees	(20,008)	(17,163)
Distributions from perpetual trusts	<u>15,816</u>	<u>16,123</u>
	<u>\$1,287,567</u>	<u>\$ 729,920</u>

#### (5) ASSETS OF POOLED LIFE INCOME FUND

Pendle Hill has a pooled life income fund. The investments are managed by Fiduciary in a balanced fund of fixed income and equity securities. The donors, or beneficiaries specified by the donors, receive the income (as defined by an agreement) generated by the investments. When the beneficiaries die the assets revert to Pendle Hill.

#### (6) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31,:

	<u>2018</u>	<u>2017</u>
Land	\$ 183,835	\$ 183,835
Buildings	6,198,289	6,078,676
Furniture and equipment	<u>195,646</u>	<u>192,660</u>
	6,577,770	6,455,171
Less accumulated depreciation	<u>(3,552,466)</u>	<u>(3,367,328)</u>
Total	<u>\$ 3,025,304</u>	<u>\$ 3,087,843</u>

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## PENDLE HILL

### NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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Pendle Hill obtained an independent appraisal of all its land, buildings and site improvements in 2013. These values were as follows:

Building and site improvements	\$4,750,000
Land	\$2,450,000

#### (7) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Pendle Hill has been named as income beneficiary of two bank-administered perpetual trusts. The principal portion of the trusts is permanently restricted and income distributions are unrestricted.

#### (8) BENEFICIAL INTEREST IN TRUST AGREEMENTS

Pendle Hill has been named as remaining beneficiary of several irrevocable charitable remainder trusts. The agreements provide for the lead beneficiaries to receive annual distributions until their death, and that, upon their death, Pendle Hill is to receive the remainder. The amounts of the remainder and payments to be made to the lead beneficiaries are estimated and have been reduced to present value.

#### (9) ANNUITIES PAYABLE

Pendle Hill administers various charitable gift annuity contracts, pursuant to which it must make specified annuity payments to the donors or their beneficiaries over their lifetimes. The liability reflected in the accompanying statement of financial position represents the present value of the expected future payments. Payments to the donors or their beneficiaries are recorded as reductions in the liability. Adjustments resulting from amortization of the discounts and changes in life expectancies of the donors or their beneficiaries are recorded as "**change in value of beneficial interest in split interest agreements**" in the accompanying statements of activities.

#### (10) NOTE PAYABLE

Pendle Hill has a note payable with Everance Association, Inc. that expires in 2035. The note had an outstanding balance of \$843,104 at August 31, 2018 and \$1,133,029 at August 31, 2017. It is secured by Pendle Hill's properties and bears interest at 4.5% and adjusts to the lender's current interest rate for one year adjustable rate mortgages after five years (April 2023). Interest payments of \$49,430 and \$57,673 were made during the years ended August 31, 2018 and 2017, respectively. Principal payments on this note will be made as follows:

**Year ending August 31,**

2019	\$ 35,013
2020	36,622
2021	38,304
2022	40,064
2023	41,904
Thereafter	<u>651,197</u>
	<u>\$843,104</u>

# PENDLE HILL

## NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

### (11) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and periods:

	<u>Balance</u> <u>August 31, 2017</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>August 31, 2018</u>
<b><u>Purpose restrictions</u></b>				
Programming	\$ 40,000	\$ 16,107	\$ (45,000)	\$ 11,107
Scholarships	65,442	134,187	(146,720)	52,909
<b><u>Time restrictions</u></b>				
Pooled life income fund	353,997	21,534	-	375,531
Gift annuities administered by Friends Fiduciary Corporation	114,800	5,000	-	119,800
Charitable remainder unitrusts	450,500	23,000	-	473,500
Contributions receivable	34,707	50,000	(34,707)	50,000
	<u>\$1,059,446</u>	<u>\$249,828</u>	<u>\$(226,427)</u>	<u>\$1,082,847</u>

	<u>Balance</u> <u>August 31, 2016</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>August 31, 2017</u>
<b><u>Purpose restrictions</u></b>				
Programming	\$ 150,000	\$ -	\$(110,000)	\$ 40,000
Scholarships	75,959	135,040	(145,557)	65,442
<b><u>Time restrictions</u></b>				
Pooled life income fund	354,526	11,975	(12,504)	353,997
Gift annuities administered by Friends Fiduciary Corporation	111,000	3,800	-	114,800
Charitable remainder unitrusts	467,466	16,664	(33,630)	450,500
Contributions receivable	-	34,707	-	34,707
	<u>\$1,158,951</u>	<u>\$202,186</u>	<u>\$(301,691)</u>	<u>\$1,059,446</u>

### (12) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets, the income from which is both unrestricted and temporarily restricted, consisted of the following:

	<u>2018</u>	<u>2017</u>
Endowments	\$7,661,260	\$6,789,489
Beneficial interest in perpetual trusts	286,200	279,700
	<u>\$7,947,460</u>	<u>\$7,069,189</u>

### (13) 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**"). Pendle Hill is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. Pendle Hill classifies both the original fair value of contributions and grants to permanent endowments along with the investment income attributable to the permanent endowments as part of permanently restricted net assets. 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.

## PENDLE HILL

### NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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In accordance with Pennsylvania statutes, Pendle Hill 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. Pendle Hill'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 money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy is to distribute an amount equal to 4% of a moving three-year average of the fair value of the endowment fund.

Endowment net assets, at August 31, 2017	\$6,789,489
Contributions	-
Interest and dividends	166,179
Realized and unrealized gain	975,329
Spending policy distribution (4.0%)	<u>(269,737)</u>
Endowment net assets, at August 31, 2018	<u>\$7,661,260</u>
Endowment net assets, at August 31, 2016	\$6,313,102
Contributions	56,750
Interest and dividends	166,749
Realized and unrealized gain	506,936
Spending policy distribution (4.0%)	<u>(254,048)</u>
Endowment net assets, at August 31, 2017	<u>\$6,789,489</u>

#### (14) RETIREMENT PLAN

Pendle Hill has a 403(b) retirement plan which allows eligible employees to contribute a portion of their gross salaries, up to the maximum amount allowed by the Internal Revenue Code, to purchase retirement annuity benefits. Pendle Hill's Plan provides for a discretionary matching contribution, which is determined each year, equal to a uniform percentage of salaries. It may also make additional discretionary contributions to the Plan. Pendle Hill made contributions to the Plan of \$3,433 in 2018 and \$2,085 in 2017.

#### (15) FUNCTIONAL EXPENSE CLASSIFICATION

Expenses are functionally classified as follows:

	<u>2018</u>	<u>2017</u>
Program	\$1,781,363	\$1,718,055
Supporting services		
General and administrative	457,543	435,039
Fundraising	<u>187,825</u>	<u>237,797</u>
	<u>\$2,426,731</u>	<u>\$2,390,891</u>

#### (16) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following is a summary of assets and liabilities measured at fair value on a recurring basis and the valuation inputs used to value them:

# PENDLE HILL

## NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

<u>Description</u>	<u>Balance</u> <u>August 31, 2018</u>	<u>Quoted Prices in</u> <u>Active Markets</u> <u>(Level 1)</u>	<u>Significant Other</u> <u>Observable Inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs (Level 3)</u>
<b>Assets</b>				
Investments				
Money market funds	\$ 728,030	\$ 728,030	\$ -	\$ -
Units in the Consolidated Fund of Friends Fiduciary Corporation	3,794,364	-	3,794,364	-
Corporate bonds	49,045	-	49,045	-
Common stocks	<u>3,956,564</u>	<u>3,956,564</u>	<u>-</u>	<u>-</u>
Total investments	8,528,003	4,684,594	3,843,409	-
Contributions receivable	84,312	-	84,312	-
Assets of pooled life income fund	614,378	-	614,378	-
Beneficial interest in perpetual trusts	286,200	-	-	286,200
Beneficial interest in trust agreements	<u>593,300</u>	<u>-</u>	<u>-</u>	<u>593,300</u>
	<u>\$10,106,193</u>	<u>\$4,684,594</u>	<u>\$4,542,099</u>	<u>\$879,500</u>
<b>Liabilities</b>				
Annuities payable	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ -</u>
<u>Description</u>	<u>Balance</u> <u>August 31, 2017</u>	<u>Quoted Prices in</u> <u>Active Markets</u> <u>(Level 1)</u>	<u>Significant Other</u> <u>Observable Inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs (Level 3)</u>
<b>Assets</b>				
Investments				
Money market funds	\$ 459,179	\$ 459,179	\$ -	\$ -
Units in the Consolidated Fund of Friends Fiduciary Corporation	3,552,747	-	3,552,747	-
Corporate bonds	4,502	-	4,502	-
Common stocks	<u>3,237,107</u>	<u>3,237,107</u>	<u>-</u>	<u>-</u>
Total investments	7,253,535	3,696,286	3,557,249	-
Contributions receivable	104,965	-	104,965	-
Assets of pooled life income fund	578,926	-	578,926	-
Beneficial interest in perpetual trusts	279,700	-	-	279,700
Beneficial interest in trust agreements	<u>565,300</u>	<u>-</u>	<u>-</u>	<u>565,300</u>
	<u>\$8,782,426</u>	<u>\$3,696,286</u>	<u>\$4,241,140</u>	<u>\$845,000</u>
<b>Liabilities</b>				
Annuities payable	<u>\$ 27,700</u>	<u>\$ -</u>	<u>\$ 27,700</u>	<u>\$ -</u>

Level 3 assets (beneficial interest in perpetual trusts and beneficial interest in trust agreements) had gains of \$34,500 and \$27,420, respectively, in the statement of activities in 2018 and 2017.

### (17) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 7, 2019, the date on which the financial statements were available to be issued. No material subsequent events have occurred since August 31, 2018 that required recognition or disclosure in the financial statements.