

THE ACADEMY OF VOCAL ARTS

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2013 AND 2012

**THE ACADEMY OF VOCAL ARTS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Academy of Vocal Arts
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of The Academy of Vocal Arts (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Academy of Vocal Arts as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Beneficial Interest in Perpetual Trust Assets and Net Assets and the Schedules of Beneficial Interest in Perpetual Trust Activities are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Supplementary Schedule of Activities - Operating Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental fair value information presented in Schedule of Activities – Operating, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 6, 2013

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 222,274	\$ 716,760
Short-Term Investments	-	109,929
Assets Limited As to Use- Investments	1,860,000	1,860,000
Grants Receivable	69,215	-
Pledges Receivable	812,424	825,171
Other Receivables	8,137	18,955
Prepaid Expenses	85,348	77,265
Total Current Assets	3,057,398	3,608,080
 GRANT RECEIVABLE	 33,981	 -
 PLEDGES RECEIVABLE	 1,415,634	 1,771,720
 INVESTMENTS, NET OF AMOUNT REQUIRED FOR CURRENT LIABILITIES	 15,143,980	 12,630,296
 BENEFICIAL INTERESTS IN TRUSTS	 6,972,677	 6,612,696
 PROPERTY AND EQUIPMENT		
Buildings	2,981,690	2,981,690
Buildings Improvements	2,363,391	2,325,071
Donated Property Available for Sale	392,850	-
Equipment	629,810	564,244
Furniture and Fixtures	174,791	90,483
Construction-in-Progress	1,554,568	64,173
Total Property and Equipment	8,097,100	6,025,661
Less: Accumulated Depreciation	(2,354,160)	(2,211,297)
Net Property and Equipment	5,742,940	3,814,364
 Total Assets	 \$ 32,366,610	 \$ 28,437,156

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Line of Credit	\$ 1,860,000	\$ 1,860,000
Accounts Payable	10,476	14,287
Health Insurance Payable	-	15,537
Payroll Taxes and Employer 403(b) Match Payable	12,698	46,983
Accrued Expenses	12,000	-
Apartments Escrow	-	4,300
Deferred Income	69,793	31,582
Current Portion of Capital Lease Obligation	5,494	4,677
Current Portion of Due to Beneficiaries	5,567	5,289
Total Current Liabilities	1,976,028	1,982,655
 LONG-TERM LIABILITIES		
Capital Lease Obligation, Net of Current Portion	36,332	9,149
Due to Beneficiaries, Net of Current Portion	15,043	17,792
Total Long-Term Liabilities	51,375	26,941
Total Liabilities	2,027,403	2,009,596
 NET ASSETS		
Unrestricted		
Board Designated - School Endowment	6,619,623	6,236,447
Board Designated - Elevator and Façade	575,000	-
Board Designated - Building Reserve	48,210	48,210
Board Designated - South Jersey Opera Fellowship	27,413	24,432
Board Designated - Gigi Capobianco Fund	37,554	32,525
Board Designated - President's Discretionary Fund	2,925	3,425
Total Board Designated Net Assets	7,310,725	6,345,039
Undesignated	3,237,532	3,392,975
Total Unrestricted Net Assets	10,548,257	9,738,014
Temporarily Restricted	3,563,119	3,375,619
Permanently Restricted	16,227,831	13,313,927
Total Net Assets	30,339,207	26,427,560
Total Liabilities and Net Assets	\$ 32,366,610	\$ 28,437,156

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT								
Operating Activities								
Contributions and Grants	\$ 2,006,933	\$ 98,481	\$ -	\$ 2,105,414	\$ 1,766,662	\$ 441,159	\$ -	\$ 2,207,821
Investment Income	1,136,500	30,622	-	1,167,122	1,110,000	33,319	-	1,143,319
Rental Income	12,133	-	-	12,133	51,500	-	-	51,500
Theatre/School Related Revenue	304,517	-	-	304,517	336,981	-	-	336,981
Total Operating Activities	3,460,083	129,103	-	3,589,186	3,265,143	474,478	-	3,739,621
Other Activities								
Contributions	-	383,141	2,026,718	2,409,859	-	2,688,448	92,118	2,780,566
Change in Value of Beneficial Interest in Trusts	-	201	359,780	359,981	-	(390)	(154,915)	(155,305)
Unrealized and Realized Gains (Losses) on Investments	491,829	11,114	527,406	1,030,349	(288,408)	-	(169,988)	(458,396)
Interest and Dividends - Other	12,768	-	-	12,768	757	-	-	757
Subtotal	3,964,680	523,559	2,913,904	7,402,143	2,977,492	3,162,536	(232,785)	5,907,243
NET ASSETS RELEASED FROM RESTRICTIONS	336,059	(336,059)	-	-	208,930	(208,930)	-	-
Total Revenues, Gains and Other Support	4,300,739	187,500	2,913,904	7,402,143	3,186,422	2,953,606	(232,785)	5,907,243
EXPENSES								
Operating Activities	3,332,684	-	-	3,332,684	3,152,712	-	-	3,152,712
Depreciation Expense	157,812	-	-	157,812	152,144	-	-	152,144
Total Expenses	3,490,496	-	-	3,490,496	3,304,856	-	-	3,304,856
CHANGE IN NET ASSETS	810,243	187,500	2,913,904	3,911,647	(118,434)	2,953,606	(232,785)	2,602,387
Net Assets - Beginning of Year	9,738,014	3,375,619	13,313,927	26,427,560	9,856,448	422,013	13,546,712	23,825,173
NET ASSETS - END OF YEAR	<u>\$ 10,548,257</u>	<u>\$ 3,563,119</u>	<u>\$ 16,227,831</u>	<u>\$ 30,339,207</u>	<u>\$ 9,738,014</u>	<u>\$ 3,375,619</u>	<u>\$ 13,313,927</u>	<u>\$ 26,427,560</u>

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 3,911,647	\$ 2,602,387
Adjustments to Reconcile Change in Net Assets to Net Cash		
Net Cash Provided by Operating Activities:		
Depreciation	157,812	152,144
Unrealized and Realized (Gains)/Losses on Investments	(1,030,349)	458,396
Change in Value of Beneficial Interest in Trusts	(359,981)	155,305
Permanently Restricted Contributions for Endowment	(1,498,548)	(92,118)
Donated Property Available for Sale	(392,850)	-
(Increase) Decrease in:		
Other Receivables	10,818	(11,470)
Grants Receivable	(103,196)	112,979
Pledges Receivable	368,833	(2,554,541)
Prepaid Expenses	(8,083)	(12,523)
Increase (Decrease) in:		
Accounts Payable	(3,811)	10,941
Health Insurance Payable	(15,537)	14,881
Payroll Taxes and Employer 403(b) Match Payable	(34,285)	11,064
Accrued Expenses	12,000	-
Apartments Escrow	(4,300)	-
Deferred Income	38,211	30,965
Net Cash Provided by Operating Activities	1,048,381	878,410
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(3,016,744)	(13,831,694)
Proceeds from Sale of Investments	1,643,337	13,479,711
Purchase of Property and Equipment	(1,661,798)	(68,880)
Net Cash Used by Investing Activities	(3,035,205)	(420,863)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for Equipment through Capital Lease Obligation	(3,737)	(3,789)
Payments to Beneficiaries, Gift Annuities	(2,471)	(5,289)
Permanently Restricted Contributions for Endowment	1,498,548	92,118
Net Cash Provided by Financing Activities	1,492,340	83,040
NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	(494,484)	540,587
Cash and Cash Equivalents- Beginning of Year	716,760	176,173
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 222,274	\$ 716,760
SUPPLEMENTAL INFORMATION		
Interest Paid During the Year	\$ 5,397	\$ 55,383
Non-Cash Disclosure of Investing in Financing Activities:		
Purchase of equipment through capital lease obligations	\$ 39,787	\$ -
Less value of like-kind exchange for capital lease purchase	(8,050)	-
Financing through capital lease obligation	(43,734)	-
Less trade-in value of prior capital lease equipment	11,997	-
	\$ -	\$ -

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Academy of Vocal Arts ("The Academy"), located in Philadelphia, Pennsylvania, is a non-profit organization devoting its resources to the training of exceptionally talented opera singers from the United States and beyond. The Academy's revenue comes primarily from contributions and grants, investment income and receipts from performances.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Academy also reports its financial position on a classified basis to enhance the readers understanding of current and non-current assets and obligations.

Unrestricted net assets are net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor-stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed), are reported as net assets released from restrictions. Temporarily restricted revenues received and released in the same year are reported as increases in unrestricted net assets.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents includes all monies in banks and highly liquid investments with maturity dates of less than three months.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Other receivables represent amounts to be reimbursed to the Academy. Pledges and Grants receivable represent unconditional promises to contribute funds to the Academy. The Academy provides an allowance for uncollectible receivables based on the reserve method based on management's judgment using historical information. When all collection efforts have been exhausted, the accounts are written off. At June 30, 2013 and 2012, no allowance against receivables was deemed necessary.

Investments

Investments are stated at fair value. Investments in stocks and mutual funds are valued using dealer or exchange quoted market prices. Shares of mutual funds are valued at the net asset value of shares held by The Academy at year-end. Short-term investments in money market funds and temporarily invested cash equivalents categorized within investments are valued at cost, which approximates fair value.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities could occur in the near-term and such changes could materially affect the amounts reported in the statement of financial position. Realized and unrealized investment gains and losses are determined by comparison of the average cost to proceeds at the time of disposal or fair value at the financial statement date. Realized and unrealized gains and losses and other investment income are reflected in the statement of activities.

Fair Value Measurements

The Academy measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Academy has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uniform Prudent Management of Institutional Funds Act

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on the classification of endowment fund net assets for states that have enacted versions of the UPMIFA, and enhances disclosures for endowment funds. Because UPMIFA has not become law in the Commonwealth of Pennsylvania, possible reclassifications of net assets are not required to be made. Disclosure of prevailing law in the Commonwealth of Pennsylvania has been included in Note 8.

Beneficial Interests in Trusts

The Academy has been named as the beneficiary in two different types of trusts. One of the trusts is entitled the "Trust Created Under Agreement by The Academy of Vocal Arts" (Warden Trust). Supplemental information on this trust has been included in these financial statements beginning on page 20. The second type of trust is a charitable remainder trust. The beneficial interests in trusts are reported at fair value, with the change in fair value reported as an increase or decrease in temporarily or permanently restricted net assets.

Property and Equipment and Depreciation

Property and equipment are carried at cost. The policy of The Academy is to capitalize all asset items in excess of \$500 whose useful life extends beyond one year. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Maintenance and repairs are charged to expense as incurred and major renewals and betterments are capitalized.

Income Taxes

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Academy follows the income tax standard for uncertain tax positions. This application of the standard has no effect on The Academy's financial statements. The Academy has not been audited by any taxing authority in recent years. The tax returns for the years 2010 to 2012 are open to examination by the IRS and State authorities.

Financial Statement Reclassifications

Reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Subsequent Events

In preparing these financial statements, The Academy has evaluated events and transactions for potential recognition or disclosure through November 6, 2013, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

Cash and cash equivalents potentially subject The Academy to a concentration credit risk. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in bank deposit accounts may exceed FDIC insurable limits.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 3 GRANTS AND PLEDGES RECEIVABLE

Grants and pledges that are expected to be collected within one year are recorded at their net realizable value. The Academy's long-term promises to give are discounted at a rate of 3%.

As of June 30, 2013 and 2012, grants and pledges receivable consisted of:

	<u>2013</u>	<u>2012</u>
Total Grants and Pledges Receivable	\$ 2,435,654	\$ 2,751,441
Less: Adjustment to Net Present Value	104,400	154,550
Grants and Pledges Receivable, Net	<u>\$ 2,331,254</u>	<u>\$ 2,596,891</u>

Pledges receivable at June 30, 2013 are expected to be collected in future years as follows:

Less than 1 year	\$ 881,639
1 to 5 years	1,454,015
More than 5 years	<u>100,000</u>
Total Grants and Pledges Receivable	<u>\$ 2,435,654</u>

NOTE 4 CONDITIONAL PROMISES TO GIVE

A donor with a long association with The Academy has made a commitment of \$2,500,000 upon her death to endow the Chair of the Music Director of The Academy. In December 2012, the donor, to satisfy part of this commitment, contributed to the Academy, residential property located in Hawaii, which was subsequently sold on October 25, 2013 for \$392,850, the value reflected in the financial statements.

An estate has named The Academy the residuary beneficiary over real estate property located in Merced, California, which was advertised for sale during the year ended June 30, 2012 and sold during the year ended June 30, 2013. The residual estate value for distribution is contingent upon the estate settling any costs related to the sale of the real estate.

NOTE 5 INVESTMENTS

Investments are composed of the following at June 30, 2013 and 2012:

	<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>
Investments:		
Equity Mutual Funds	\$ 10,162,827	\$ 11,995,003
Fixed Income Mutual Funds	<u>5,179,548</u>	<u>5,008,977</u>
Subtotal	<u>\$ 15,342,375</u>	17,003,980
Less: Assets Limited As To Use - Investments		<u>1,860,000</u>
Total Investments		<u>\$ 15,143,980</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 INVESTMENTS (CONTINUED)

	2012	
	Cost	Fair Value
Temporarily Invested Cash	\$ 145,354	\$ 145,354
Investments:		
Equity Stocks	538,623	593,061
Equity Mutual Funds	9,377,907	9,665,653
Fixed Income Mutual Funds	4,069,416	4,086,228
Subtotal	\$ 14,131,300	14,490,296
Less: Assets Limited As To Use - Investments		1,860,000
Total Investments		\$ 12,630,296

The investments of The Academy are subject to a formal investment policy which is monitored for compliance by the investment committee and managed by external investment managers and compared to certain relevant indices. The primary objective of the investment management of the endowment is to preserve or increase its real (inflation adjusted) purchasing power over time while providing a relatively stable and constant (in real terms) stream of cash distributions for use in the operations.

All net capital gains, both unrealized and realized, earned from permanently and temporarily restricted and unrestricted investments are allocated prorata among the individual funds within the net asset balances.

NOTE 6 BENEFICIAL INTERESTS IN TRUSTS

The Academy has been named as the beneficiary in two different types of trusts. As long as it is in existence, The Academy is the sole income beneficiary under a Trust Fund created for its benefit in 1949. Given the nature of the promises as well as the inability to compute the present value of the perpetual income stream from the Trust, the beneficial interest has been recorded on the statement of financial position at the fair value of the Trust's assets and classified as permanently restricted net assets. The fluctuation in the fair value of the Trust from year to year is included in the statement of activities of the permanently restricted net assets. The Trust Fund consists entirely of marketable equity mutual funds, fixed income mutual funds and temporary cash investments. At June 30, 2013 and 2012, the fair value of this trust is \$6,927,059 and \$6,567,279, respectively.

The second type of beneficial interest is in three charitable remainder trusts whereby upon the death of the beneficiary, The Academy will receive a principal distribution which is unrestricted. The value amount of this beneficial interest is calculated based on the present value of projected value of the principal at the anticipated date of distribution and amounted to \$45,618 at June 30, 2013 and \$45,417 at June 30, 2012.

Due to the level of risk associated with the underlying investments included in the Trusts, it is at least reasonably possible that changes in the value of the Beneficial Interest in Perpetual Trusts could occur in the near-term and could materially affect the amounts reported in the statement of financial position. The underlying investments in these trusts are comprised of marketable equity securities, mutual funds and temporary cash investments.

THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 FAIR VALUE MEASUREMENTS

The Academy uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how The Academy values all other assets refer to Note 1 – Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis as of June 30, 2013 and 2012 are:

	2013			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity Mutual Funds	\$ 11,995,003	\$ -	\$ -	\$ 11,995,003
Fixed Income Mutual Funds	5,008,977	-	-	5,008,977
Beneficial Interests in Trusts *	<u>6,927,059</u>	-	<u>45,618</u>	<u>6,972,677</u>
	<u>\$ 23,931,039</u>	<u>\$ -</u>	<u>\$ 45,618</u>	<u>\$ 23,976,657</u>

	2012			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity Stocks	\$ 593,061	\$ -	\$ -	\$ 593,061
Equity Mutual Funds	9,665,653	-	-	9,665,653
Fixed Income Mutual Funds	4,086,228	-	-	4,086,228
Beneficial Interests in Trusts *	<u>6,567,279</u>	-	<u>45,417</u>	<u>6,612,696</u>
	<u>\$ 20,912,221</u>	<u>\$ -</u>	<u>\$ 45,417</u>	<u>\$ 20,957,638</u>

* See description of composition of assets in Note 6.

The following table provides a summary of changes in fair value of The Academy's Level 3 financial assets for the years ended June 30, 2013 and 2012:

2013	
	Beneficial Interests in Trusts
Balance at July 1, 2012	\$ 45,417
Change in Value of Trust	201
Balance at June 30, 2013	<u>\$ 45,618</u>
2012	
	Beneficial Interests in Trusts
Balance at July 1, 2011	\$ 45,807
Change in Value of Trust	(390)
Balance at June 30, 2012	<u>\$ 45,417</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 ENDOWMENT NET ASSETS

The Academy's Board has responsibility for all endowment funds, and administers them through the President, Chief Financial Officer, and Treasurer, with the advice and oversight of the Investment Committee. The investment objectives, policies and guidelines are intended to govern the overall management of The Academy's endowment and related assets. The Investment Committee will review them at least annually for continued appropriateness and will report to the Board which must approve any change.

The primary objective of the investment management of the endowment is to preserve or increase its real purchasing power over time while providing a relatively stable and constant stream of cash distributions for use in the current operations of The Academy. The Academy uses "the total return" concept (i.e., current income plus appreciation, whether realized or unrealized) and current market value, in tracking its investment performance, evaluating its managers and calculating its spending formula. Distributions from the endowment funds shall be limited to the amount permitted under the spending rule policy for the endowment funds established by the Board of Directors. In addition, the Academy is guided in its total return policy by Commonwealth of Pennsylvania Act 141, which dictates the amount of allowable distributions to be made from a restricted endowment. Under Pennsylvania statute, the Board of Directors of The Academy has the opportunity in each fiscal year to elect to include in its unrestricted funds between 2% and 7% return of the fair market value of The Academy's permanently restricted investments. The Academy's policy is also to maintain the value of the permanently restricted investment balance at the date of the gifts derived from the dates of the original gifts. This policy is also consistent with the provisions of Act 141.

Distributions are made in accordance with the spending policy. For the year ended June 30, 2013 the Board of Directors approved the available election of up to 6.25% and The Academy received approximately 6.25% in 2013 and 6.50% in 2012 of these investments, based on a three year average.

In June 2012, the Academy entered into an investment advisory agreement. Advisory fees amounted to \$21,361 for the year ended June 30, 2013.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 ENDOWMENT NET ASSETS (CONTINUED)

A summary of the endowment activity by net asset class for the year ended June 30, 2013 and 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2011	\$ 7,503,148	\$ 8,492	\$ 6,824,518	\$ 14,336,158
Investment Return:				
Investment Income, Net of Expenses	199,789	30,644	169,168	399,601
Net Realized and Unrealized Gains (Losses)	(53,943)	-	4,377	(49,566)
Total Investment Return	145,846	30,644	173,545	350,035
Fellowship Contributions	56,900	-	92,118	149,018
Fellowship Disbursements	(66,270)	(31,200)	(82,950)	(180,420)
Net Contributions / (Other Disbursements)	281,531	-	-	281,531
Distributions of Endowment Income	(439,417)	-	(260,583)	(700,000)
Endowment Net Assets, June 30, 2012	7,481,738	7,936	6,746,648	14,236,322
Investment Return:				
Investment Income	256,226	30,622	220,377	507,225
Net Realized and Unrealized Gains, Net of Expenses	716,515	3,364	652,915	1,372,794
Total Investment Return	972,741	33,986	873,292	1,880,019
Fellowship Contributions	58,000	-	1,017,891	1,075,891
Fellowship Disbursements	(58,120)	(37,355)	(89,750)	(185,225)
Giargiari Prize Disbursement	-	-	(2,000)	(2,000)
Net Contributions / (Other Disbursements)	(96,988)	224,558	480,657	608,227
Distributions of Endowment Income	(479,364)	-	(254,136)	(733,500)
Endowment Net Assets, June 30, 2013	<u>\$ 7,878,007</u>	<u>\$ 229,125</u>	<u>\$ 8,772,602</u>	<u>\$ 16,879,734</u>

NOTE 9 DUE TO BENEFICIARIES

The Academy has received several gifts from individuals under charitable gift annuity and pooled income programs. As a result, The Academy has incurred obligations to various beneficiaries under the contracts. The gift annuity contracts use discount rates ranging from 3.4% to 5.8% and IRS life expectancy tables and are payable per agreements. Pooled income funds return the earned income to the donor over their remaining life.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 LINE OF CREDIT

The Academy entered into a secured line of credit during the year ended June 30, 2008 in the amount of \$2,050,000. \$1,860,000 was borrowed on this line to acquire an adjacent property to The Academy's location. The security on this line was a mortgage and security agreement on the acquired property as well as certain investments held. Accordingly, pledged investments equal to the outstanding balance of the line of credit have been classified as current on the Statements of Financial Position. There were no payments made on the principal balance during the years ended June 30, 2013 and 2012. During the year ended June 30, 2013 and 2012 interest amounting to \$51,860 and \$55,383 was charged on this line of credit at the prime lending rate less .50% (2.75% at June 30, 2013 and 2012). This line of credit is due upon demand. In July 2013, the note was amended to increase the available credit to \$2,500,000.

During October 2013, the Academy entered into a new financing arrangement with a bank. A commitment letter has been signed for a commercial mortgage in the amount of \$4,080,000 with a fixed interest rate of 3.5% for a term of 7 ½ years over a 20 year amortization period. When the financing is in place and the funds disbursed, the line of credit will be retired.

NOTE 11 EMPLOYEE BENEFIT PLAN

The Academy maintains a qualified contribution plan under Section 403(b) of the Internal Revenue Code. The plan provides for a salary reduction election, employer matching, and a discretionary contribution. Employees who have worked up to one year are eligible for an employer matching of fifty percent (50%) of the first five percent (5%) of employee contributions. Employees working more than one year are eligible for a matching of one hundred (100%) of the first five percent (5%) of employee contributions. All employees are vested upon participation. The Academy's contributions to the plan amounted to \$44,328 for the year ended June 30, 2013 and \$37,674 for the year ended June 30, 2012.

NOTE 12 OPERATING LEASE

The Academy rents storage space under an operating lease agreement for \$1,905 per month. The rent for the storage space is subject to 2.5% annual increases through the lease term. As of June 30, 2013, future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 23,336
2015	23,920
2016	4,003
Total	<u>\$ 51,259</u>

Rental expenses for the year ended June 30, 2013 and 2012 were approximately \$24,000 and \$23,000, respectively.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 13 CAPITAL LEASE

The Academy entered into a new capital lease agreement in December 2012 for copiers and printers at a monthly rate of \$1,300. The lease term is 60 months and the asset is being depreciated over the life of the lease.

The following is an analysis of the leased equipment under a capital lease included in "Equipment" on the Statements of Financial Position at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Printers/Copiers & Related Equipment Cost	\$ 39,787	\$ 23,000
Less: Accumulated Depreciation	3,979	12,650
Total Equipment Under Capital Lease	<u>\$ 35,808</u>	<u>\$ 10,350</u>

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	15,600
2015	15,600
2016	15,600
2017	15,600
2018	<u>9,100</u>
Total Minimum Lease Payments	71,500
Less: Imputed Interest	<u>29,674</u>
Present value of net minimum lease payments	<u>\$ 41,826</u>

Depreciation expense related to the asset under a capital lease is included in the statements of activities for 2013 and 2012 and amounts to \$6,279 and \$4,600, respectively.

NOTE 14 CLASSIFICATION OF EXPENSES

The following summarizes costs of providing program and support activities on a functional basis. Accordingly, certain costs have been allocated using management's estimates among the program and supporting activities benefited.

	<u>2013</u>	<u>2012</u>
Program	\$ 2,457,165	\$ 2,481,103
Management and General	502,403	446,338
Fundraising	530,928	377,415
Total Expenses	<u>\$ 3,490,496</u>	<u>\$ 3,304,856</u>

Costs associated with the capital and endowment campaign included in fundraising expenses amounted to approximately \$174,000 and \$47,000, respectively, for the years ended June 30, 2013 and 2012.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2011**

NOTE 15 RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2013 and 2012 are restricted for the following purposes:

	<u>2013</u>	<u>2012</u>
<u>Temporarily Restricted</u>		
<u>Purpose Restricted</u>		
Pooled Income Funds	\$ 121,347	\$ 113,597
Operational Contingency	100,000	100,000
Bequest	-	436,501
Student Aid	6,877	12,687
Foundation Pledges	6,500	-
Ed Davis Fellowship	-	7,936
Total Purpose Restricted	<u>234,724</u>	<u>670,721</u>
<u>Time Restricted For:</u>		
Operations	6,900	6,900
Campaign Giving and Pledges	2,539,667	1,733,166
Donor Pledge	641,719	903,785
Foundation Pledges	88,981	-
Charitable Remainder Trusts	45,618	45,417
Annual Fellowships	<u>5,510</u>	<u>15,630</u>
Total Time Restricted	<u>3,328,395</u>	<u>2,704,898</u>
Total Temporarily Restricted	<u>\$ 3,563,119</u>	<u>\$ 3,375,619</u>
 <u>Permanently Restricted</u>		
School Endowment Fund	\$ 4,832,064	\$ 4,196,660
Campaign Endowments	677,649	-
Alumni Challenge	7,074	6,305
Bucks County Fellowship	103,338	96,357
C. Nyheim Fellowship	97,618	91,259
Eve Nyheim Fellowship	112,410	97,823
Cowles Fellowship	285,407	265,012
Sally Paxson Davis Fellowship	100,695	94,001
De Serio Fellowship	97,560	91,207
Dolbey Fellowship	107,151	-
Domingo Fellowship	103,409	96,420
Ed Davis Fellowships	1,469,280	593,061
Franca Warden Fellowship	37,262	32,643
Gordon K. Greenfield Fellowship	114,921	106,208
Isenberg Fellowship	102,033	-
J. Nyheim Fellowship	104,533	97,422
Loewy Memorial Fellowship	98,186	91,765
Merrill Fellowship	103,253	93,917
Morris Fellowship	102,035	95,196
New Century	102,427	95,545
Palamara Fellowship	98,829	92,338
Parkinson Memorial Fund	51,069	46,131
Adele Paxson Fellowship	97,913	91,522
Ritt Fellowship	97,029	91,207
Rudolph Fellowship	97,914	91,523
Swenson Fellowship	99,713	93,126
Warden Trust	<u>6,927,059</u>	<u>6,567,279</u>
Total Permanently Restricted	<u>\$ 16,227,831</u>	<u>\$ 13,313,927</u>

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF ACTIVITIES – OPERATING (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2013</u>	<u>2012</u>
SCHEDULE OF OPERATING SUPPORT AND REVENUE		
Contributions, General	\$ 503,609	\$ 525,596
Corporate and Foundation Grants	358,148	290,776
Net Assets (Gifts Received in Prior Year) Released from Restrictions for Operations	336,059	208,930
Government Grants	41,028	47,836
Bequests	700,983	504,658
Fellowship Award Contributions	48,000	56,900
Investment Income		
Trust Fund	403,000	410,000
Endowment	733,500	700,000
Other Investment Income	12,768	757
Box Office Receipts	256,272	277,216
Gala Receipts	274,495	228,365
Audition Fees	20,800	17,700
Bucks County Opera Association	52,220	49,708
Main Line Opera Committee	19,200	25,669
South Jersey Opera Association	92	16,850
Concert Bureau	9,900	21,240
Special Events Revenue	17,545	20,825
Rental Income	12,133	51,500
Miscellaneous Income	9,158	20,304
Total Operating Support and Revenue	<u>3,808,910</u>	<u>3,474,830</u>
 SCHEDULE OF OPERATING EXPENSES		
Personnel		
Administrative Salaries	279,158	218,000
Educational Salaries	356,693	368,973
Production Salaries	415,687	382,279
Fundraising Salaries	217,417	148,369
Marketing Salaries	70,083	100,250
Payroll Taxes	110,377	92,942
Health Insurance	159,586	168,063
Retirement Plan	44,328	37,674
Total Personnel Expenses	<u>1,653,329</u>	<u>1,516,550</u>
 Office		
Supplies and Expense	29,332	36,119
Entertainment & Board Meetings	9,063	11,788
Directors & Officers Insurance	6,810	7,221
Audit/Professional Fees	54,362	62,648
Capital Lease Interest	5,397	3,379
Computer	33,578	26,981
Tessitura	23,061	22,132
Website	5,244	5,892
Telephone	13,937	14,383
Total Office Expenses	<u>180,784</u>	<u>190,543</u>

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF ACTIVITIES – OPERATING (CONTINUED) (UNAUDITED)
YEARS ENDED 2013 AND 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2013</u>	<u>2012</u>
School		
Supplies and Expenses	\$ 3,957	\$ 1,321
Library	777	2,051
Piano Tuning and Repairs	14,915	6,052
Recruitment and Auditions	503	-
Publicity	14,633	16,898
Accreditation and Memberships	6,660	2,923
Work Study Disbursements	2,305	4,743
Other School Expenses	3,609	4,622
Total School Expenses	<u>47,359</u>	<u>38,610</u>
Building		
Insurance	64,980	62,259
Line of Credit Interest - 1916 Spruce Street	-	52,004
Local Taxes & Assessments	8,734	20,372
Custodial Fees	34,167	38,000
Repairs and Maintenance	16,814	28,224
Utilities	40,695	54,021
Rental Property	5,162	-
Household Supplies and Expenses	4,680	3,746
Total Building Expenses	<u>175,232</u>	<u>258,626</u>
Production Expenses		
Costumes	44,149	41,320
Printing, Postage and Promotion	115,717	81,469
Broadcasts	12,835	21,000
Set Design, Construction, Transportation and Storage	123,814	118,897
Lighting Design and Expenses	8,120	6,696
Props, Make-Up and Wigs	26,237	25,534
Stage Director Fees and Expenses	108,967	36,552
Orchestra and Chorus	256,049	296,200
Stage Hands	830	395
Theatre and Opera Expenses	61,762	80,173
Music and Instrument Rental	18,773	15,530
Box Office Fees and Expenses	17,530	15,469
Concert Bureau Expense	8,025	20,745
Total Production Expenses	<u>802,808</u>	<u>759,980</u>
Other		
Student Fellowship Awards	185,225	180,424
Student Grants	8,810	1,500
Gala Expenses	109,484	99,016
Opera Association/Committee Expenses	35,155	46,061
Fund Raising Expenses	27,643	27,051
Miscellaneous Expenses	-	4,772
Campaign Fees and Expenses	80,974	14,511
Friends of AVA Expenses	25,881	15,068
Total Other Expenses	<u>473,172</u>	<u>388,403</u>
Total Operating Expenses	<u>3,332,684</u>	<u>3,152,712</u>
Excess Operating Support and Revenue Over Operating Expenses	<u>\$ 476,226</u>	<u>\$ 322,118</u>

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ASSETS AND NET ASSETS
JUNE 30, 2013 AND 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2013	2012
ASSETS		
Cash	\$ 107,393	\$ 87,597
Investments:		
Equity Mutual Funds	4,885,110	4,571,489
Fixed Income Mutual Funds	1,934,556	1,908,193
Total Assets	\$ 6,927,059	\$ 6,567,279
NET ASSETS - Permanently Restricted	\$ 6,927,059	\$ 6,567,279

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2013</u>	<u>2012</u>
Investment Income	\$ 195,947	\$ 133,719
Contributions	-	53,783
Net Unrealized and Realized Gains on Sales of Investments	<u>578,471</u>	<u>78,574</u>
Total Revenue	774,418	266,076
Trust Expenses	11,638	10,991
Distributions to the Academy of Vocal Arts	<u>403,000</u>	<u>410,000</u>
Total Expenses	<u>414,638</u>	<u>420,991</u>
Change in Net Assets	359,780	(154,915)
Trust Net Assets - Beginning of Year	<u>6,567,279</u>	<u>6,722,194</u>
Trust Net Assets - End of Year	<u><u>\$ 6,927,059</u></u>	<u><u>\$ 6,567,279</u></u>