

THE ACADEMY OF VOCAL ARTS

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

**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, 2014 and 2013, 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, 2014 and 2013, 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
September 9, 2014

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013**

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 371,430	\$ 222,274
Assets Limited As to Use- Investments	-	1,860,000
Grants Receivable	47,500	69,215
Pledges Receivable	987,358	812,424
Other Receivables	5,776	8,137
Prepaid Expenses	104,373	85,348
Total Current Assets	1,516,437	3,057,398
 GRANT RECEIVABLE	-	33,981
 PLEDGES RECEIVABLE	1,186,767	1,415,634
 DEFERRED FINANCING COSTS, NET OF ACCUMULATED AMORTIZATION	27,704	-
 INVESTMENTS, NET OF AMOUNT REQUIRED FOR CURRENT LIABILITIES IN 2013	22,857,625	15,143,980
 BENEFICIAL INTERESTS IN TRUSTS	7,798,787	6,972,677
 PROPERTY AND EQUIPMENT		
Buildings	2,981,690	2,981,690
Buildings Improvements	4,679,411	2,363,391
Donated Property Available for Sale	-	392,850
Equipment	798,966	669,910
Furniture and Fixtures	163,250	134,691
Construction-in-Progress	-	1,554,568
Total Property and Equipment	8,623,317	8,097,100
Less: Accumulated Depreciation	(2,603,545)	(2,354,160)
Net Property and Equipment	6,019,772	5,742,940
 Total Assets	\$ 39,407,092	\$ 32,366,610

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Line of Credit	\$ -	\$ 1,860,000
Accounts Payable	7,659	10,476
Payroll Taxes and Employer 403(b) Match Payable	12,193	12,698
Accrued Expenses	53,321	12,000
Deferred Income	45,186	69,793
Current Portion of Capital Lease Obligations	9,461	5,494
Current Portion of Due to Beneficiaries	3,605	5,567
Current Portion of Mortgage Payable	145,301	-
Total Current Liabilities	276,726	1,976,028
 LONG-TERM LIABILITIES		
Capital Lease Obligations, Net of Current Portion	42,645	36,332
Due to Beneficiaries, Net of Current Portion	16,603	15,043
Mortgage Payable, Net of Current Portion	3,863,758	-
Total Long-Term Liabilities	3,923,006	51,375
Total Liabilities	4,199,732	2,027,403
 NET ASSETS		
Unrestricted		
Board Designated - School Endowment	7,336,451	6,619,623
Board Designated - Elevator and Façade	-	575,000
Board Designated - Building Reserve	48,210	48,210
Board Designated - South Jersey Opera Fellowship	31,981	27,413
Board Designated - Gigi Capobianco Fund	44,895	37,554
Board Designated - President's Discretionary Fund	-	2,925
Total Board Designated Net Assets	7,461,537	7,310,725
Undesignated	6,416,367	3,237,532
Total Unrestricted Net Assets	13,877,904	10,548,257
Temporarily Restricted	2,251,407	3,563,119
Permanently Restricted	19,078,049	16,227,831
Total Net Assets	35,207,360	30,339,207
Total Liabilities and Net Assets	\$ 39,407,092	\$ 32,366,610

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT								
Operating Activities								
Contributions and Grants	\$ 1,896,223	\$ 16,319	\$ -	\$ 1,912,542	\$ 2,006,933	\$ 98,481	\$ -	\$ 2,105,414
Investment Income	1,342,000	-	-	1,342,000	1,136,500	30,622	-	1,167,122
Rental Income	2,122	-	-	2,122	12,133	-	-	12,133
Theatre/School Related Revenue	295,865	-	-	295,865	304,517	-	-	304,517
Total Operating Activities	3,536,210	16,319	-	3,552,529	3,460,083	129,103	-	3,589,186
Other Activities								
Contributions	-	1,088,723	914,784	2,003,507	-	383,141	2,026,718	2,409,859
Change in Value of Beneficial Interest in Trusts	-	4,798	821,312	826,110	-	201	359,780	359,981
Unrealized and Realized Gains on Investments	1,040,225	12,093	1,114,122	2,166,440	491,829	11,114	527,406	1,030,349
Other Investment Income (Loss)	(843)	-	-	(843)	12,768	-	-	12,768
Subtotal	4,575,592	1,121,933	2,850,218	8,547,743	3,964,680	523,559	2,913,904	7,402,143
NET ASSETS RELEASED FROM RESTRICTIONS	2,433,645	(2,433,645)	-	-	336,059	(336,059)	-	-
Total Revenues, Gains and Other Support	7,009,237	(1,311,712)	2,850,218	8,547,743	4,300,739	187,500	2,913,904	7,402,143
EXPENSES								
Operating Activities	3,427,868	-	-	3,427,868	3,332,684	-	-	3,332,684
Depreciation and Amortization Expense	251,722	-	-	251,722	157,812	-	-	157,812
Total Expenses	3,679,590	-	-	3,679,590	3,490,496	-	-	3,490,496
CHANGE IN NET ASSETS	3,329,647	(1,311,712)	2,850,218	4,868,153	810,243	187,500	2,913,904	3,911,647
Net Assets - Beginning of Year	10,548,257	3,563,119	16,227,831	30,339,207	9,738,014	3,375,619	13,313,927	26,427,560
NET ASSETS - END OF YEAR	<u>\$ 13,877,904</u>	<u>\$ 2,251,407</u>	<u>\$ 19,078,049</u>	<u>\$ 35,207,360</u>	<u>\$ 10,548,257</u>	<u>\$ 3,563,119</u>	<u>\$ 16,227,831</u>	<u>\$ 30,339,207</u>

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,868,153	\$ 3,911,647
Adjustments to Reconcile Change in Net Assets to Net Cash		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	251,722	157,812
Unrealized and Realized Gains on Investments	(2,166,440)	(1,030,349)
Change in Value of Beneficial Interest in Trusts	(826,110)	(359,981)
Permanently Restricted Contributions for Endowment	(1,320,741)	(1,498,548)
Donated Property Available for Sale	-	(392,850)
(Increase) Decrease in:		
Other Receivables	2,361	10,818
Grants Receivable	55,696	(103,196)
Pledges Receivable	53,933	368,833
Prepaid Expenses	(19,025)	(8,083)
Increase (Decrease) in:		
Accounts Payable	(2,817)	(3,811)
Health Insurance Payable	-	(15,537)
Payroll Taxes and Employer 403(b) Match Payable	(505)	(34,285)
Accrued Expenses	41,321	12,000
Apartments Escrow	-	(4,300)
Deferred Income	(24,607)	38,211
Net Cash Provided by Operating Activities	<u>912,941</u>	<u>1,048,381</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(6,597,369)	(3,016,744)
Proceeds from Sale of Investments	2,910,164	1,643,337
Proceeds from Sale of Donated Property	392,850	-
Purchase of Property and Equipment	(902,127)	(1,661,798)
Net Cash Used by Investing Activities	<u>(4,196,482)</u>	<u>(3,035,205)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for Equipment through Capital Lease Obligation	(6,660)	(3,737)
Payments to Beneficiaries, Gift Annuities	(402)	(2,471)
Payment of Deferred Financing Costs	(30,041)	-
Repayments of Mortgage	(70,941)	-
Proceeds from Mortgage	4,080,000	-
Retirement of Line of Credit	(1,860,000)	-
Permanently Restricted Contributions for Endowment	1,320,741	1,498,548
Net Cash Provided by Financing Activities	<u>3,432,697</u>	<u>1,492,340</u>
NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	149,156	(494,484)
Cash and Cash Equivalents- Beginning of Year	<u>222,274</u>	<u>716,760</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 371,430</u>	<u>\$ 222,274</u>
SUPPLEMENTAL INFORMATION		
Interest Paid During the Year	<u>\$ 84,333</u>	<u>\$ 5,397</u>
Non-Cash Disclosure of Investing in Financing Activities:		
Purchase of equipment through capital lease obligations	\$ 16,940	\$ 39,787
Less value of like-kind exchange for capital lease purchase	-	(8,050)
Financing through capital lease obligation	(16,940)	(43,734)
Less trade-in value of prior capital lease equipment	-	11,997
	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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. 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 which 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 Equivalent

Cash and cash equivalent 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, 2014 AND 2013**

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, 2014 and 2013, 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 statements 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 statements 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.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

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.

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). Supplementary information on this trust accompanies these financial statements beginning on page 21. 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 2011 to 2013 are open to examination by the IRS and State authorities.

Financial Statement Reclassifications

Reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

Subsequent Events

In preparing these financial statements, The Academy has evaluated events and transactions for potential recognition or disclosure through September 9, 2014, the date the financial statements were available to be issued.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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.

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, 2014 and 2013, grants and pledges receivable consisted of:

	2014	2013
Total Grants and Pledges Receivable	\$ 2,300,799	\$ 2,435,654
Less: Adjustment to Net Present Value	79,174	104,400
Grants and Pledges Receivable, Net	\$ 2,221,625	\$ 2,331,254

Pledges receivable at June 30, 2014 are expected to be collected in future years as follows:

Less than 1 year	\$ 1,034,858
1 to 5 years	1,190,941
More than 5 years	75,000
Total Grants and Pledges Receivable	\$ 2,300,799

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. To satisfy part of this commitment, in December 2012, the donor contributed to the Academy residential property located in Hawaii, which was subsequently sold on October 25, 2013 for \$392,850 less associated costs of \$16,266. During the year ended June 30, 2014, the donor also contributed \$530,000 towards this commitment.

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.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 INVESTMENTS

Investments are composed of the following at June 30, 2014 and 2013:

	2014	
	Cost	Fair Value
Investments:		
Equity Mutual Funds	\$ 11,976,122	\$ 15,970,200
Fixed Income Mutual Funds	6,941,741	6,887,425
Subtotal	\$ 18,917,863	\$ 22,857,625
	2013	
	Cost	Fair Value
Investments:		
Equity Mutual Funds	\$ 10,162,827	\$ 11,995,003
Fixed Income Mutual Funds	5,179,548	5,008,977
Subtotal	\$ 15,342,375	17,003,980
Less: Assets Limited As To Use - Investments		1,860,000
Total Investments		\$ 15,143,980

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 statements 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 statements 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, 2014 and 2013, the fair value of this trust is \$7,748,371 and \$6,927,059, respectively.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 BENEFICIAL INTERESTS IN TRUSTS (CONTINUED)

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 principal at the anticipated date of distribution and amounted to \$50,416 at June 30, 2014 and \$45,618 at June 30, 2013.

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 statements of financial position. The underlying investments in these trusts are comprised of marketable equity securities, mutual funds, and temporary cash investments.

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, 2014 and 2013 are:

	2014			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity Mutual Funds	\$ 15,970,200	\$ -	\$ -	\$ 15,970,200
Fixed Income Mutual Funds	6,887,425	-	-	6,887,425
Beneficial Interests in Trusts *	7,748,371	-	50,416	7,798,787
	<u>\$ 30,605,996</u>	<u>\$ -</u>	<u>\$ 50,416</u>	<u>\$ 30,656,412</u>

	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 *	6,927,059	-	45,618	6,972,677
	<u>\$ 23,931,039</u>	<u>\$ -</u>	<u>\$ 45,618</u>	<u>\$ 23,976,657</u>

* See description of composition of assets in Note 5.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides a summary of changes in fair value of The Academy's Level 3 financial assets (See Note 1, Fair Value Measurements) for the years ended June 30, 2014 and 2013:

	2014
	Beneficial Interests in Trusts
Balance at July 1, 2013	\$ 45,618
Change in Value of Trust	4,798
Balance at June 30, 2014	\$ 50,416

	2013
	Beneficial Interests in Trusts
Balance at July 1, 2012	\$ 45,417
Change in Value of Trust	201
Balance at June 30, 2013	\$ 45,618

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 three year average of the fair market value of The Academy's permanently restricted investments.

THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 8 ENDOWMENT NET ASSETS (CONTINUED)

Distributions are made in accordance with the spending policy. For the year ended June 30, 2014 the Board of Directors approved the available election of up to 6.25% and The Academy received approximately 6.25% in 2014 and 2013 of these investments, based on a three year average.

In June 2012, the Academy entered into an investment advisory agreement. Advisory fees amounted to \$27,360 and \$21,361 for the years ended June 30, 2014 and 2013, respectively.

A summary of the endowment activity by net asset class for the years ended June 30, 2014 and 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2012	\$ 7,481,738	\$ 7,936	\$ 6,746,648	\$ 14,236,322
Investment Return:				
Investment Income, Net of Expenses	256,226	30,622	220,377	507,225
Net Realized and Unrealized Gains (Losses)	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	7,878,007	229,125	8,772,602	16,879,734
Investment Return:				
Investment Income	264,634	-	252,182	516,816
Net Realized and Unrealized Gains, Net of Expenses	1,433,657	-	1,304,524	2,738,181
Total Investment Return	1,698,291	-	1,556,706	3,254,997
Fellowship, Giargiari Prize, and Music Director Chair Contributions	59,400	-	1,108,469	1,167,869
Fellowship Disbursements	(50,600)	-	(156,150)	(206,750)
Music Director Chair and Giargiari Prize Disbursements	-	-	(26,500)	(26,500)
Net Contributions / (Other Disbursements)	2,586,640	(229,125)	212,272	2,569,787
Distributions of Endowment Income	(658,066)	-	(259,934)	(918,000)
Endowment Net Assets, June 30, 2014	\$ 11,513,672	\$ -	\$ 11,207,465	\$ 22,721,137

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 the donor's remaining life.

NOTE 10 LINE OF CREDIT AND MORTGAGE PAYABLE

The Academy entered into a secured line of credit during the year ended June 30, 2008 in the amount of \$2,050,000, which was increased to \$2,500,000 in July 2013. \$1,860,000 was borrowed on this line to acquire a property adjacent to The Academy. This line was secured by 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. Interest amounting to \$26,569 and \$51,860 for the years ended June 30, 2014 and 2013, respectively, was charged on this line of credit at the prime lending rate less .50% (2.75% at June 30, 2014 and 2013). No principal payments were made during the year ended June 30, 2013. This line of credit was retired on December 4, 2013, when a new mortgage with a bank was secured.

On December 4, 2013, The Academy secured 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. Loan costs of \$30,041 associated with this mortgage are being amortized on a straight-line basis over 7 ½ years. Amortization expense was \$2,337 for the year ended June 30, 2014. Interest expense on this mortgage for the year ended June 30, 2014 was \$82,196.

Scheduled principal payments on long-term mortgage payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 145,301
2016	150,542
2017	155,972
2018	161,597
2019	167,426
Thereafter	<u>3,228,221</u>
Total Mortgage Payable	<u><u>\$ 4,009,059</u></u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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, discretionary employer matching, and a discretionary contribution. Employees are eligible for any employer 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 \$42,868 for the year ended June 30, 2014 and \$44,328 for the year ended June 30, 2013.

During the year ended June 30, 2014, the Academy prepared a Voluntary Compliance Program (VCP) submission to correct matching contributions for the years ended May 31, 2008 through June 30, 2013. The VCP was submitted to the IRS in August 2014. Estimated costs of \$32,000 for the VCP are recorded in the year ended June 30, 2014.

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, 2014, future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 23,336
2016	3,905
Total	<u>\$ 27,241</u>

Rental expenses for the years ended June 30, 2014 and 2013 were approximately \$24,000 for each year.

NOTE 13 CAPITAL LEASE

The Academy entered into a new capital lease agreement for a printer copier in April 2014 at a monthly rate of \$349. The Academy also has the capital lease agreement entered into in December 2012 for copiers and printers at a monthly rate of \$1,300. The lease term for both lease agreements is 60 months and the assets are being depreciated over the lives of the leases.

The following is an analysis of the leased equipment under capital leases included in "Equipment" on the Statements of Financial Position at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Printers/Copiers & Related Equipment Cost	\$ 56,727	\$ 39,787
Less: Accumulated Depreciation	12,783	3,979
Total Equipment Under Capital Lease	<u>\$ 43,944</u>	<u>\$ 35,808</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 13 CAPITAL LEASE (CONTINUED)

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, 2014:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 18,488
2016	19,788
2017	19,788
2018	13,288
2019	<u>3,141</u>
Total Minimum Lease Payments	74,493
Less: Imputed Interest	<u>22,387</u>
Present value of net minimum lease payments	<u><u>\$ 52,106</u></u>

Depreciation expense related to the assets under capital leases is included in the Statements of Activities for 2014 and 2013 and amounts to \$8,804 and \$6,279, 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>2014</u>	<u>2013</u>
Program	\$ 2,663,547	\$ 2,457,165
Management and General	525,158	502,403
Fundraising	490,885	530,928
Total Expenses	<u><u>\$ 3,679,590</u></u>	<u><u>\$ 3,490,496</u></u>

Costs associated with the capital and endowment campaign included in fundraising expenses amounted to approximately \$120,000 and \$174,000, respectively, for the years ended June 30, 2014 and 2013.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 15 RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2014 and 2013 are restricted for the following purposes:

	2014	2013
<u>Temporarily Restricted</u>		
<u>Purpose Restricted</u>		
Pooled Income Funds	\$ 133,440	\$ 121,347
Operational Contingency	100,000	100,000
Student Aid	5,841	6,877
Foundation Pledges	-	6,500
Total Purpose Restricted	239,281	234,724
<u>Time Restricted For:</u>		
Operations	6,900	6,900
Campaign Giving and Pledges	1,407,709	2,539,667
Donor Pledge	481,291	641,719
Foundation Pledges	52,500	88,981
Charitable Remainder Trusts	50,416	45,618
Annual Fellowships	13,310	5,510
Total Time Restricted	2,012,126	3,328,395
Total Temporarily Restricted	\$ 2,251,407	\$ 3,563,119
 <u>Permanently Restricted</u>		
School Endowment Fund	\$ 5,377,352	\$ 4,832,064
Campaign Endowments	526,560	284,799
Adele Warden Paxson Fellowship	109,354	97,913
Alumni Challenge	8,253	7,074
Ann B. Ritt Fellowship	108,323	97,029
Ariel G. Loewy Fellowship	109,673	98,186
Bucks County Opera Association Fellowship	115,683	103,338
Celia Mones Rudolph Fellowship	109,356	97,914
Charlotte DeSerio Watts Fellowship	108,943	97,560
Christel Nyheim Fellowship	109,010	97,618
Cornell MacNeil Fellowship	273,988	244,880
David Poleri Fellowship	273,987	244,880
Edward Costa Dolbey Fellowship	120,132	107,151
Eugene M. and Ronnie F. Isenberg Fellowship	114,161	102,033
Eve Nyheim Fellowship	126,267	112,410
Franca Warden Fellowship	44,159	37,262
Gordon K. Greenfield Fellowship	129,197	114,921
James Morris Fellowship	114,163	102,035
James Pease Fellowship	275,287	244,880
Jeannine B. Cowles Fellowship	323,489	285,407
Jeannine B. Cowles Music Director Chair	956,122	392,850
Jeffrey Kneebone Fellowship	273,987	244,880
John Nyheim Fellowship	117,078	104,533
Leonard Warren Fellowship	275,288	244,880
New Century Fellowship	114,621	102,427
Palamara Fellowship	110,423	98,829
Parkinson Memorial Fund	58,225	51,069
Peggy MacLaren Ulrich Fellowship	216,664	-
Placido Domingo Fellowship	115,766	103,409
Robert Merrill Fellowship	115,584	103,253
Robert Weede Fellowship	273,987	244,880
Ruth Ann Swenson Fellowship	111,454	99,713
Sally Paxson Davis Fellowship	113,142	100,695
Warden Trust	7,748,371	6,927,059
Total Permanently Restricted	\$ 19,078,049	\$ 16,227,831

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF ACTIVITIES – OPERATING (UNAUDITED)
YEARS ENDED JUNE 30, 2014 AND 2013
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2014</u>	<u>2013</u>
SCHEDULE OF OPERATING SUPPORT		
AND REVENUE		
Contributions, General	\$ 547,195	\$ 413,859
Corporate and Foundation Grants	157,130	358,148
Net Assets (Gifts Received in Prior Years) Released from Restrictions for Operations	2,433,645	336,059
Government Grants	40,583	41,028
Bequests	510,000	700,983
Fellowship Award Contributions	206,750	137,750
Investment Income		
Trust Fund	424,000	403,000
Endowment	798,000	733,500
Mortgage Proceeds	120,000	-
Other Investment Income (Loss)	(843)	12,768
Box Office Receipts	242,470	256,272
Worldwide Ambassadors Council	52,434	-
Gala Receipts	305,737	274,495
Bucks County Opera Association	43,945	52,220
Main Line Opera Committee	26,400	19,200
South Jersey Opera Association	-	92
Audition Fees	18,300	20,800
Concert Bureau	21,645	9,900
Special Events Revenue	13,450	17,545
Rental Income	2,122	12,133
Miscellaneous Income	6,049	9,158
Total Operating Support and Revenue	<u>5,969,012</u>	<u>3,808,910</u>
 SCHEDULE OF OPERATING EXPENSES		
Personnel		
Administrative Salaries	282,000	279,158
Educational Salaries	368,050	356,693
Production Salaries	422,500	415,687
Fundraising Salaries	156,601	217,417
Marketing Salaries	54,585	70,083
Payroll Taxes	100,455	110,377
Health Insurance	160,064	159,586
Retirement Plan	74,591	44,328
Total Personnel Expenses	<u>1,618,846</u>	<u>1,653,329</u>
Office		
Supplies and Expense	31,265	29,332
Entertainment & Board Meetings	10,183	9,063
Staff Development	3,192	-
Directors & Officers Insurance	7,954	6,810
Audit/Professional Fees	47,587	54,362
Capital Lease Interest	10,465	5,397
Computer	39,081	33,578
Tessitura	21,670	23,061
Website	6,704	5,244
Telephone	13,113	13,937
Total Office Expenses	<u>191,214</u>	<u>180,784</u>

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF ACTIVITIES – OPERATING (CONTINUED) (UNAUDITED)
YEARS ENDED 2014 AND 2013
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2014</u>	<u>2013</u>
School		
Faculty and Coaches Fees	\$ 55,019	\$ -
Supplies and Expenses	623	3,957
Library	2,492	777
Piano Tuning and Repairs	9,006	14,915
Recruitment and Auditions	400	503
Publicity	14,548	14,633
Accreditation and Memberships	1,914	6,660
Work Study Disbursements	7,362	2,305
Other School Expenses	2,175	3,609
Total School Expenses	<u>93,539</u>	<u>47,359</u>
Building		
Insurance	66,906	64,980
Mortgage Interest - 1916 Spruce Street	83,617	-
Local Taxes & Assessments	12,705	8,734
Custodial Fees	40,000	34,167
Repairs and Maintenance	27,114	16,814
Utilities	39,643	40,695
Rental Property	2,945	5,162
Household Supplies and Expenses	5,880	4,680
Total Building Expenses	<u>278,810</u>	<u>175,232</u>
Production Expenses		
Contracted fees	138,100	98,900
Stage Director expenses	5,958	10,067
Costumes	39,331	44,149
Printing, Postage and Promotion	86,047	115,717
Broadcasts	19,140	12,835
Set Design, Construction, Transportation and Storage	71,321	123,814
Lighting Design and Expenses	14,592	8,120
Props, Make-Up and Wigs	14,880	26,237
Orchestra and Chorus	249,224	256,049
Stage Hands	875	830
Theater and Opera Expenses	51,514	61,762
Music and Instrument Rental	8,184	18,773
Box Office Fees and Expenses	17,174	17,530
Concert Bureau Expense	19,755	8,025
Total Production Expenses	<u>736,095</u>	<u>802,808</u>
Other		
Student Fellowship Awards	206,750	185,225
Student Grants	1,036	8,810
Gala Expenses	92,391	109,484
Opera Association/Committee Expenses	36,627	35,155
Fund Raising Expenses	26,251	27,643
Worldwide Ambassadors Council expenses	13,750	-
Campaign Fees and Expenses	115,717	80,974
Friends of AVA Expenses	16,842	25,881
Total Other Expenses	<u>509,364</u>	<u>473,172</u>
Total Operating Expenses	<u>3,427,868</u>	<u>3,332,684</u>
Excess Operating Support and Revenue Over Operating Expenses	<u>\$ 2,541,144</u>	<u>\$ 476,226</u>

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ASSETS AND NET ASSETS
JUNE 30, 2014 AND 2013
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2014	2013
ASSETS		
Cash	\$ 1,496	\$ 107,393
Investments:		
Equity Mutual Funds	5,471,384	4,885,110
Fixed Income Mutual Funds	2,275,491	1,934,556
Total Assets	\$ 7,748,371	\$ 6,927,059
NET ASSETS - Permanently Restricted	\$ 7,748,371	\$ 6,927,059

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2014</u>	<u>2013</u>
Investment Income	\$ 185,582	\$ 195,947
Net Unrealized and Realized Gains on Sales of Investments	<u>1,072,311</u>	<u>578,471</u>
Total Revenue	1,257,893	774,418
Trust Expenses	12,581	11,638
Distributions to the Academy of Vocal Arts	<u>424,000</u>	<u>403,000</u>
Total Expenses	<u>436,581</u>	<u>414,638</u>
Change in Net Assets	821,312	359,780
Trust Net Assets - Beginning of Year	<u>6,927,059</u>	<u>6,567,279</u>
Trust Net Assets - End of Year	<u>\$ 7,748,371</u>	<u>\$ 6,927,059</u>