

THE ACADEMY OF VOCAL ARTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**THE ACADEMY OF VOCAL ARTS
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YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Academy of Vocal Arts
Philadelphia, Pennsylvania

Report on the Financial Statements

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, 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 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, 2018 and 2017, 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

Other 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 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 audits 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 Schedules of Activities – Operating Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental fair value information presented in schedules 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 audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 13, 2018

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 290,854	\$ 152,535
Grants Receivable	4,500	35,000
Pledges Receivable	135,484	643,277
Other Receivables	11,879	14,860
Prepaid Expenses and Deposits	14,945	14,935
Total Current Assets	457,662	860,607
 PLEDGES RECEIVABLE	-	25,728
 INVESTMENTS	28,987,531	27,763,250
 BENEFICIAL INTERESTS IN TRUSTS	7,936,810	7,733,166
 PROPERTY AND EQUIPMENT		
Land	448,000	448,000
Buildings	2,533,690	2,533,690
Buildings Improvements	4,771,760	4,767,215
Leasehold Improvements	14,679	14,679
Equipment	894,273	892,786
Furniture and Fixtures	207,901	207,901
Total Property and Equipment	8,870,303	8,864,271
Less: Accumulated Depreciation	(3,677,346)	(3,391,653)
Net Property and Equipment	5,192,957	5,472,618
 Total Assets	 \$ 42,574,960	 \$ 41,855,369

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Payroll Withholdings and Benefits Payable	\$ 18,137	\$ 17,139
Accrued Expenses	20,915	26,142
Deferred Income	44,164	34,627
Current Portion of Capital Lease Obligations	13,780	12,628
Current Portion of Due to Beneficiaries	3,283	3,242
Current Portion of Mortgage Payable	167,412	161,584
Total Current Liabilities	<u>267,691</u>	<u>255,362</u>
LONG-TERM LIABILITIES		
Capital Lease Obligations, Net of Current Portion	29,693	43,473
Due to Beneficiaries, Net of Current Portion	25,605	28,465
Mortgage Payable, Net	3,216,949	3,380,355
Total Long-Term Liabilities	<u>3,272,247</u>	<u>3,452,293</u>
Total Liabilities	3,539,938	3,707,655
NET ASSETS		
Unrestricted:		
Board Designated - School Endowment	7,458,051	7,245,436
Board Designated - Building Reserve	48,210	48,210
Board Designated - South Jersey Opera Fellowship	40,193	37,230
Board Designated - Gigi Capobianco Fund	56,423	52,264
Total Board Designated Net Assets	<u>7,602,877</u>	<u>7,383,140</u>
Undesignated	8,310,681	7,928,072
Total Unrestricted Net Assets	<u>15,913,558</u>	<u>15,311,212</u>
Temporarily Restricted	320,183	782,584
Permanently Restricted	22,801,281	22,053,918
Total Net Assets	<u>39,035,022</u>	<u>38,147,714</u>
Total Liabilities and Net Assets	<u>\$ 42,574,960</u>	<u>\$ 41,855,369</u>

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT								
Operating Activities:								
Contributions and Grants	\$ 2,013,190	\$ 11,500	\$ -	\$ 2,024,690	\$ 1,801,829	\$ 21,222	\$ -	\$ 1,823,051
Investment Income	1,448,000	-	-	1,448,000	1,375,000	-	-	1,375,000
Theatre/School Related Revenue	315,858	-	-	315,858	293,426	-	-	293,426
Total Operating Activities	3,777,048	11,500	-	3,788,548	3,470,255	21,222	-	3,491,477
Other Activities:								
Contributions	-	403	76,132	76,535	-	297,894	4,317	302,211
Change in Value of Beneficial Interests in Trusts	-	23	203,621	203,644	-	27,902	507,799	535,701
Unrealized and Realized Gains on Investments, Net	417,172	2,713	467,610	887,495	903,974	4,812	1,018,232	1,927,018
Other Investment Loss	(1,095)	-	-	(1,095)	(8)	-	-	(8)
Total Other Activities	416,077	3,139	747,363	1,166,579	903,966	330,608	1,530,348	2,764,922
Subtotal	4,193,125	14,639	747,363	4,955,127	4,374,221	351,830	1,530,348	6,256,399
NET ASSETS RELEASED FROM RESTRICTIONS	477,040	(477,040)	-	-	823,748	(823,748)	-	-
Total Revenues, Gains, and Other Support	4,670,165	(462,401)	747,363	4,955,127	5,197,969	(471,918)	1,530,348	6,256,399
EXPENSES								
Operating Activities	3,782,126	-	-	3,782,126	3,833,832	-	-	3,833,832
Depreciation	285,693	-	-	285,693	193,260	-	-	193,260
Total Expenses	4,067,819	-	-	4,067,819	4,027,092	-	-	4,027,092
CHANGE IN NET ASSETS	602,346	(462,401)	747,363	887,308	1,170,877	(471,918)	1,530,348	2,229,307
Net Assets - Beginning of Year	15,311,212	782,584	22,053,918	38,147,714	14,140,335	1,254,502	20,523,570	35,918,407
NET ASSETS - END OF YEAR	<u>\$ 15,913,558</u>	<u>\$ 320,183</u>	<u>\$ 22,801,281</u>	<u>\$ 39,035,022</u>	<u>\$ 15,311,212</u>	<u>\$ 782,584</u>	<u>\$ 22,053,918</u>	<u>\$ 38,147,714</u>

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 887,308	\$ 2,229,307
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	285,693	193,260
Amortization of Debt Issuance Costs	4,005	4,005
Donation of Piano	-	(20,000)
Unrealized and Realized Gains on Investments, Net	(887,495)	(1,927,018)
Change in Value of Beneficial Interests in Trusts	(203,644)	(535,701)
Permanently Restricted Contributions for Endowment	(76,132)	(4,317)
(Increase) Decrease in Assets:		
Grants Receivable	30,500	39,481
Pledges Receivable	533,521	2,016,912
Other Receivables	2,981	3,088
Prepaid Expenses and Deposits	(10)	40,115
Increase (Decrease) in Liabilities:		
Payroll Withholdings and Benefits Payable	998	1,602
Accrued Expenses	(5,227)	5,080
Deferred Income	9,537	1,610
Net Cash Provided by Operating Activities	582,035	2,047,424
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(1,532,735)	(2,812,050)
Proceeds from Sale of Investments	1,195,949	770,153
Purchase of Property and Equipment	(6,032)	(16,094)
Net Cash Used by Investing Activities	(342,818)	(2,057,991)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for Equipment through Capital Lease Obligations	(12,628)	(11,803)
Proceeds from New Gift Annuity	-	29,408
Payments to Beneficiaries	(2,819)	(3,643)
Repayments of Mortgage	(161,583)	(155,957)
Permanently Restricted Contributions for Endowment	76,132	4,317
Net Cash Used by Financing Activities	(100,898)	(137,678)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	138,319	(148,245)
Cash and Cash Equivalents - Beginning of Year	152,535	300,780
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 290,854	\$ 152,535

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid During the Year	\$ 128,079	\$ 133,710
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
In-Kind Piano Contribution	\$ -	\$ 20,000
Purchase of Equipment through Capital Lease Obligations	\$ -	\$ 19,358
Less: Value of Like-Kind Exchange for Capital Lease Purchases	-	(6,494)
Financing through Capital Lease Obligations	-	(20,243)
Less: Trade-In Value of Prior Capital Lease Obligations	-	7,379
	\$ -	\$ -

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Academy of Vocal Arts (The Academy), located in Philadelphia, Pennsylvania, is a nonprofit 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 noncurrent 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 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, 2018 AND 2017**

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 management's judgment using historical information. When all collection efforts have been exhausted, the accounts are written off. At June 30, 2018 and 2017, 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, 2018 AND 2017**

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 7.

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 23. 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 any asset in excess of \$1,000 with a useful life that 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's Form 990 return for the year ended June 30, 2014 was audited by the Internal Revenue Service (IRS). The result of the audit was the IRS accepted the return as filed and The Academy continues to qualify for exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

In preparing these financial statements, The Academy has evaluated events and transactions for potential recognition or disclosure through September 13, 2018, the date the financial statements were available to be issued.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 CONCENTRATION OF CREDIT RISK

Cash and cash equivalents potentially subject The Academy to a concentration of 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 grants and pledges receivable consisted of:

	<u>2018</u>	<u>2017</u>
Total Grants and Pledges Receivable	\$ 139,984	\$ 704,777
Less: Adjustment to Net Present Value	-	772
Grants and Pledges Receivable, Net	<u>\$ 139,984</u>	<u>\$ 704,005</u>

Grants and pledges receivable at June 30, 2018 are expected to be collected in future years as follows:

Less than One Year	\$ 139,984
Total Grants and Pledges Receivable	<u>\$ 139,984</u>

NOTE 4 INVESTMENTS

Investments are composed of the following at June 30:

	<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>
Investments:		
Equity Mutual Funds	\$ 13,703,879	\$ 20,834,830
Fixed Income Mutual Funds	8,523,614	8,152,701
Total	<u>\$ 22,227,493</u>	<u>\$ 28,987,531</u>
	<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>
Investments:		
Equity Mutual Funds	\$ 14,039,408	\$ 19,645,888
Fixed Income Mutual Funds	8,218,067	8,117,362
Total	<u>\$ 22,257,475</u>	<u>\$ 27,763,250</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 INVESTMENTS (CONTINUED)

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 5 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, 2018 and 2017, the fair value of this trust is \$7,867,094 and \$7,663,473, 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 principal at the anticipated date of distribution and amounted to \$69,716 and \$69,693 at June 30, 2018 and 2017, respectively.

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 Trusts could occur in the near-term and could 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 6 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.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of June 30 are:

	2018			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity Mutual Funds	\$ 20,834,830	\$ -	\$ -	\$ 20,834,830
Fixed Income Mutual Funds	8,152,701	-	-	8,152,701
Beneficial Interests in Trusts *	7,867,094	-	69,716	7,936,810
Total	<u>\$ 36,854,625</u>	<u>\$ -</u>	<u>\$ 69,716</u>	<u>\$ 36,924,341</u>

	2017			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity Mutual Funds	\$ 19,645,888	\$ -	\$ -	\$ 19,645,888
Fixed Income Mutual Funds	8,117,362	-	-	8,117,362
Beneficial Interests in Trusts *	7,663,473	-	69,693	7,733,166
Total	<u>\$ 35,426,723</u>	<u>\$ -</u>	<u>\$ 69,693</u>	<u>\$ 35,496,416</u>

* See description of composition of assets in Note 5.

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, 2018 and 2017:

	2018
	Beneficial Interests in Trusts
Balance - July 1, 2017	\$ 69,693
Change in Value of Trust	23
Balance - June 30, 2018	<u>\$ 69,716</u>

	2017
	Beneficial Interests in Trusts
Balance - July 1, 2016	\$ 41,791
Change in Value of Trust	27,902
Balance - June 30, 2017	<u>\$ 69,693</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 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 any changes to the board.

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.

Distributions were made in accordance with the spending policy. For the year ended June 30, 2018 the board of directors approved a spending rate of 5.5% and The Academy received approximately 5.5% and 5.5%, based on the past three-year average of the investments, during the years ended June 30, 2018 and 2017, respectively.

In June 2012, The Academy entered into an investment advisory agreement. Advisory fees amounted to \$33,949 and \$31,153 for the years ended June 30, 2018 and 2017, respectively.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 ENDOWMENT NET ASSETS (CONTINUED)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - July 1, 2016	\$ 12,041,943	\$ -	\$ 11,683,687	\$ 23,725,630
Investment Return:				
Investment Income	335,226	-	309,344	644,570
Realized and Unrealized Losses, Net of Expenses	<u>1,326,172</u>	<u>-</u>	<u>1,218,801</u>	<u>2,544,973</u>
Total Investment Return	1,661,398	-	1,528,145	3,189,543
Fellowship and Giargiari Prize Contributions	41,053	-	37,400	78,453
Fellowship Disbursements	(40,450)	-	(207,600)	(248,050)
Music Director Chair and Giargiari Prize Disbursements	(77,899)	-	(17,838)	(95,737)
Net Contributions	452,936	-	1,550,958	2,003,894
Distributions of Endowment Income	<u>(679,525)</u>	<u>-</u>	<u>(284,475)</u>	<u>(964,000)</u>
Endowment Net Assets - June 30, 2017	13,399,456	-	14,290,277	27,689,733
Investment Return:				
Investment Income	337,392	-	334,805	672,197
Realized and Unrealized Gains, Net of Expenses	<u>805,173</u>	<u>-</u>	<u>792,562</u>	<u>1,597,735</u>
Total Investment Return	1,142,565	-	1,127,367	2,269,932
Fellowship and Giargiari Prize Contributions	42,750	-	101,300	144,050
Fellowship Disbursements	(41,250)	-	(217,650)	(258,900)
Music Director Chair and Giargiari Prize Disbursements	-	-	(130,500)	(130,500)
Net Contributions	233,986	-	-	233,986
Distributions of Endowment Income	<u>(725,393)</u>	<u>-</u>	<u>(311,607)</u>	<u>(1,037,000)</u>
Endowment Net Assets - June 30, 2018	<u>\$ 14,052,114</u>	<u>\$ -</u>	<u>\$ 14,859,187</u>	<u>\$ 28,911,301</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8 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 IRS life expectancy tables and discount rates ranging from 1.8% to 5.6% and are payable per agreements. Pooled income funds return the earned income to the donor over the donor's remaining life.

NOTE 9 MORTGAGE PAYABLE

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 7½ 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 7½ years. Amortization of debt issuance costs was \$4,005 for each of the years ended June 30, 2018 and 2017 and is included as a component of mortgage interest expense. Interest expense on this mortgage, including amortization, was \$127,225 and \$132,864 for the years ended June 30, 2018 and 2017, respectively.

A summary of the mortgage payable consists of the following:

	<u>2018</u>	<u>2017</u>
Mortgage Payable	\$ 3,396,044	\$ 3,557,627
Less: Unamortized Debt Issuance Costs	<u>11,683</u>	<u>15,688</u>
Total Mortgage Payable, Net of Unamortized Debt Issuance Costs	3,384,361	3,541,939
Less: Current Portion	<u>167,412</u>	<u>161,584</u>
Total Mortgage Payable, Net of Current Portion	<u><u>\$ 3,216,949</u></u>	<u><u>\$ 3,380,355</u></u>

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 167,412
2020	173,145
2021	<u>3,055,487</u>
Mortgage Payable	<u><u>\$ 3,396,044</u></u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 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 for eligible participants. Effective July 1, 2014, the vesting provisions and provisions for classes of employees were amended. Eligible employees are defined now as employees who normally work 20 hours or more per week. Eligible employees who participate in the plan are entitled to any employer matching of 100% of the first 5% of employee contributions. Participants in the plan prior to the July 1, 2014 amendment remain 100% vested in the matching contributions. New participants after June 30, 2014 become vested in the matching contributions based on years of service starting with 20% for 1 year of service and increasing in 20% increments until a participant is fully vested after 5 years of service. The Academy's contributions to the plan amounted to \$56,302 and \$59,762 for the years ended June 30, 2018 and 2017, respectively.

NOTE 11 OPERATING LEASE

The Academy rents storage space under an operating lease agreement for \$2,160 per month. The rent for the storage space is subject to 2.5% annual increases through the lease term. As of June 30, 2018, future minimum lease payments are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2019	\$ 26,430
2020	27,061
2021	27,708
2022	28,371
2023	29,051
Thereafter	65,306
Total	<u><u>\$ 203,927</u></u>

Rental expense was approximately \$27,500 and \$26,200 for the years ended June 30, 2018 and 2017, respectively.

NOTE 12 CAPITAL LEASES

During May 2017, The Academy traded in previous capital lease equipment at a monthly rate of \$349 and entered into a new capital lease agreement for a printer copier at a monthly rate of \$417. Also, during December 2015, The Academy traded-in previous capital lease equipment at a monthly rate of \$1,300 and entered into a new capital lease agreement for copiers and printers at a monthly rate of \$1,598. The term for both lease agreements is 60 months and the assets are being depreciated over the lives of the leases.

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 12 CAPITAL LEASES (CONTINUED)

The following is an analysis of the leased equipment under capital leases included in equipment on the statements of financial position at June 30:

	<u>2018</u>	<u>2017</u>
Printers/Copiers and Related Equipment Costs	\$ 61,408	\$ 61,408
Less: Accumulated Depreciation	27,273	15,441
Total Equipment Under Capital Leases	<u>\$ 34,135</u>	<u>\$ 45,967</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, 2018:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 24,180
2020	24,180
2021	14,592
2022	4,587
Total Minimum Lease Payments	<u>67,539</u>
Less: Executory Costs	<u>17,790</u>
Net Minimum Lease Payments	49,749
Less: Imputed Interest	<u>6,276</u>
Present Value of Net Minimum Lease Payments	<u>\$ 43,473</u>

Depreciation expense related to the assets under capital leases is included in the statements of activities for 2018 and 2017 and amounts to \$11,832 and \$11,879, respectively.

NOTE 13 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>2018</u>	<u>2017</u>
Program	\$ 2,867,170	\$ 2,819,434
Management and General	619,857	612,936
Fundraising	580,792	594,722
Total Expenses	<u>\$ 4,067,819</u>	<u>\$ 4,027,092</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 14 RESTRICTED NET ASSETS

Restricted net assets as of June 30 are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Temporarily Restricted:		
Purpose Restricted:		
Pooled Income Funds	\$ 76,230	\$ 73,517
Student Aid Fund	5,366	5,366
Elizabeth M. Strine Fund for Piano Excellence	16,490	13,490
Bryan Hymel Special Project Fund	40,000	40,000
Total Purpose Restricted	<u>138,086</u>	<u>132,373</u>
Time Restricted for:		
Operations	6,900	6,900
Campaign Giving and Pledges	40,750	142,752
Bequests	-	329,635
Foundation Pledges	12,000	50,000
Gift Annuity	43,493	43,493
Charitable Remainder Trusts	69,716	69,693
Annual Fellowships	9,238	7,738
Total Time Restricted	<u>182,097</u>	<u>650,211</u>
Total Temporarily Restricted	<u>\$ 320,183</u>	<u>\$ 782,584</u>

**THE ACADEMY OF VOCAL ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 14 RESTRICTED NET ASSETS (CONTINUED)

	2018	2017
Permanently Restricted:		
School Endowment Fund	\$ 5,560,117	\$ 5,401,609
Campaign Endowments	376,700	366,226
Adele Warden Paxson Fellowship	116,559	112,301
Alumni Challenge	10,373	9,608
Ann B. Ritt Fellowship	115,871	111,664
Anne P. Addicks Comprehensive Scholarship/Fellowship	378,527	366,475
Anne P. Addicks German Study	102,611	103,549
Ariel G. Loewy Fellowship	116,991	112,702
Bryan Hymel Comprehensive Scholarship/Fellowship	373,423	361,900
Bryan Hymel Travel Fund	102,766	100,007
Bucks County Opera Association Fellowship	125,131	120,242
Cecile K. Dalton Memorial Fund	64,253	62,406
Celia Mones Rudolph Fellowship	116,561	112,303
Charlotte Watts Fellowship	116,616	112,354
Christel Nyheim Fellowship	138,787	111,901
Cornell MacNeil Fellowship	293,772	282,953
David A. and Helen P. Horn Fellowship	125,263	122,549
David Poleri Fellowship	293,772	282,953
Edward Costa Dolbey Fellowship	130,844	125,533
Isenberg Family Foundation Fellowship	121,981	117,324
Eve Nyheim Fellowship	139,586	131,989
Franca Warden Fellowship	56,041	51,236
Francis J. Palamara Fellowship	118,541	114,137
Gordon K. Greenfield Fellowship	141,496	135,400
James Morris Fellowship	122,602	117,899
James Pease Fellowship	294,010	282,933
Jeannine B. Cowles Fellowship	349,059	337,536
Jeannine B. Cowles Music Director Chair	2,685,122	2,607,589
Jeffrey Kneebone Fellowship	293,772	282,953
John Nyheim Fellowship	139,162	121,293
Leonard Warren Fellowship	293,584	282,779
Main Line Opera Association Fellowship	28,802	-
Parkinson Memorial Fund	67,897	63,855
Peggy MacLaren Ulrich Comprehensive Scholarship/Fellowship	402,668	390,443
Placido Domingo Fellowship	124,618	119,766
Robert Merrill Fellowship	124,388	119,553
Robert Weede Fellowship	294,140	284,257
Ruth Ann Swenson Fellowship	119,198	114,746
Sally Paxson Davis Fellowship	121,350	116,739
Susan Schwarz Myers Fellowship	133,607	118,461
William A. Loeb Fellowship	103,626	100,322
Warden Trust	7,867,094	7,663,473
Total Permanently Restricted	\$ 22,801,281	\$ 22,053,918

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF ACTIVITIES—OPERATING (UNAUDITED)
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	2018	2017
SCHEDULE OF OPERATING SUPPORT AND REVENUE		
Contributions, General	\$ 821,230	\$ 603,543
Corporate and Foundation Grants	199,925	286,738
Net Assets (Gifts Received in Prior Years)		
Released from Restrictions for Operations	374,635	542,646
Government Grants	39,600	47,763
Bequests	97,719	5,000
Fellowships and Student Grants	258,900	248,050
Jeannine B Cowles Music Director Chair	125,000	125,000
Branding Campaign Designated Funds	-	77,899
Investment Income:		
Warden Trust	411,000	411,000
Endowment	912,000	839,000
Mortgage Proceeds	125,000	125,000
Other Investment Loss	(1,095)	(8)
Box Office Receipts	240,053	221,051
Gala Receipts	326,677	273,226
Bucks County Opera Association	45,665	47,890
Main Line Opera Association	54,265	42,089
Worldwide Ambassadors Council	4,023	54,464
Opening Night Celebration	35,000	38,355
Audition Fees	19,600	17,100
Concert Bureau	32,405	37,575
Special Events	23,800	17,700
Miscellaneous	5,186	26,812
Total Operating Support and Revenue	4,150,588	4,087,893
SCHEDULE OF OPERATING EXPENSES		
Personnel:		
Administrative Salaries	340,902	346,500
Educational Salaries	351,511	370,408
Production Salaries	471,084	459,583
Fundraising Salaries	282,334	271,888
Marketing Salaries	69,663	105,198
Payroll Taxes	138,234	120,692
Health Insurance	170,887	160,372
Retirement Plan	56,302	59,762
Total Personnel Expenses	1,880,917	1,894,403
Office:		
Supplies and Expenses	22,305	24,746
Entertainment and Board Meetings	25,334	31,000
Staff Development	2,302	1,327
Directors and Officers Insurance	7,347	7,217
Audit/Professional Fees	47,404	36,653
Interest on Capital Leases	4,436	4,441
Computer Services	67,509	63,068
Tessitura Services	25,359	21,879
Telephone	10,676	10,671
Total Office Expenses	212,672	201,002
School:		
Faculty and Coaches Fees	58,014	56,930
Supplies and Expenses	959	507
Library	3,635	1,292
Piano Tuning and Repairs	5,193	5,312
Recruitment and Auditions	473	226
Accreditation and Memberships	2,968	5,064
Work Study Disbursements	3,848	6,703
Other School Expenses	-	3,680
Total School Expenses	75,090	79,714

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF ACTIVITIES—OPERATING (UNAUDITED) (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	2018	2017
Building:		
Insurance	\$ 34,531	\$ 33,190
Mortgage Interest - 1916 Spruce Street	127,225	132,864
Local Taxes and Assessments	500	1,254
Custodial Fees	45,000	45,000
Repairs and Maintenance	27,070	21,195
Utilities	36,534	39,454
Household Supplies and Expenses	5,808	4,727
Total Building Expenses	276,668	277,684
Marketing/Recruitment:		
Website	1,311	633
Publicity	16,030	16,539
Printing, Postage, and Promotion	90,560	102,003
Branding Campaign	-	77,899
Broadcasts	17,450	15,180
Promotional CDs	-	6,000
Total Marketing/Recruitment	125,351	218,254
Production Expenses:		
Contracted Fees	167,425	113,700
Stage Director Expenses	3,556	1,106
Costumes	43,418	46,646
Set Design, Construction, Transportation, and Storage	77,628	87,381
Lighting Design and Expenses	20,147	16,528
Props, Make-Up, and Wigs	14,547	9,956
Orchestra	269,896	253,842
Stage Hands	908	1,286
Theater Rentals and Opera Expenses	50,488	50,385
Music and Instrument Rentals	9,218	7,748
Box Office Fees and Expenses	16,684	20,265
Concert Bureau	33,005	36,570
Total Production Expenses	706,920	645,413
Other:		
Student Fellowships	258,900	248,050
Student Grants	2,500	4,100
Gala Expenses	99,225	118,766
Bucks County Opera Association	21,907	26,663
Main Line Opera Association	29,755	12,862
Worldwide Ambassadors Council	6,924	28,655
Opening Night Celebration	22,804	17,984
Friends of AVA Expenses	13,436	11,173
Special Events	11,930	10,198
Fund Raising Expenses	37,127	38,911
Total Other Expenses	504,508	517,362
Total Operating Expenses	3,782,126	3,833,832
Excess (Deficiency) of Operating Support and Revenue Over Operating Expenses	\$ 368,462	\$ 254,061

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ASSETS AND NET ASSETS
JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	2018	2017
ASSETS		
Cash	\$ 6,900	\$ 2,127
Investments:		
Equity Mutual Funds	5,477,155	5,365,158
Fixed Income Mutual Funds	2,383,039	2,296,188
Total Assets	\$ 7,867,094	\$ 7,663,473
NET ASSETS - Permanently Restricted	\$ 7,867,094	\$ 7,663,473

THE ACADEMY OF VOCAL ARTS
SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Investment Income	\$ 184,555	\$ 182,809
Unrealized and Realized Gains on Investments	<u>443,602</u>	<u>746,996</u>
Total Revenue	628,157	929,805
Trust Expenses	13,536	11,006
Distributions to The Academy of Vocal Arts	<u>411,000</u>	<u>411,000</u>
Total Expenses	<u>424,536</u>	<u>422,006</u>
Change in Net Assets	203,621	507,799
Trust Net Assets - Beginning of Year	<u>7,663,473</u>	<u>7,155,674</u>
Trust Net Assets - End of Year	<u>\$ 7,867,094</u>	<u>\$ 7,663,473</u>



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