

**THE ACADEMY OF VOCAL ARTS**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2015 AND 2014**

**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, 2015 and 2014, 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**

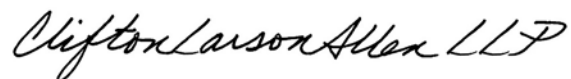
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Academy of Vocal Arts as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles 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 1, 2015

**THE ACADEMY OF VOCAL ARTS  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2015 AND 2014**

<b>ASSETS</b>	2015	2014
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 331,007	\$ 371,430
Grants Receivable	-	47,500
Pledges Receivable	516,996	987,358
Other Receivables	18,214	5,776
Prepaid Expenses and Deposits	32,473	104,373
Total Current Assets	898,690	1,516,437
<b>PLEDGES RECEIVABLE</b>	864,153	1,186,767
<b>DEFERRED FINANCING COSTS, NET OF ACCUMULATED AMORTIZATION</b>	23,699	27,704
<b>INVESTMENTS</b>	24,422,475	22,857,625
<b>BENEFICIAL INTERESTS IN TRUSTS</b>	7,609,895	7,798,787
<b>PROPERTY AND EQUIPMENT</b>		
Buildings	2,981,690	2,981,690
Buildings Improvements	4,763,221	4,679,411
Leasehold Improvements	22,949	-
Equipment	859,001	798,966
Furniture and Fixtures	195,801	163,250
Total Property and Equipment	8,822,662	8,623,317
Less: Accumulated Depreciation	(2,914,543)	(2,603,545)
Net Property and Equipment	5,908,119	6,019,772
Total Assets	\$ 39,727,031	\$ 39,407,092

See accompanying Notes to Financial Statements.

**LIABILITIES AND NET ASSETS**

	2015	2014
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 8,820	\$ 7,659
Payroll Taxes and Employer 403(b) Match Payable	15,573	12,193
Accrued Expenses	31,278	53,321
Deferred Income	7,042	45,186
Current Portion of Capital Lease Obligations	12,288	9,461
Current Portion of Due to Beneficiaries	3,723	4,273
Current Portion of Mortgage Payable	150,542	145,301
Total Current Liabilities	229,266	277,394
 <b>LONG-TERM LIABILITIES</b>		
Capital Lease Obligations, Net of Current Portion	30,357	42,645
Due to Beneficiaries, Net of Current Portion	12,565	15,935
Mortgage Payable, Net of Current Portion	3,713,216	3,863,758
Total Long-Term Liabilities	3,756,138	3,922,338
Total Liabilities	3,985,404	4,199,732
 <b>NET ASSETS</b>		
Unrestricted		
Board Designated - School Endowment	7,175,996	7,336,451
Board Designated - Building Reserve	48,210	48,210
Board Designated - South Jersey Opera Fellowship	33,003	31,981
Board Designated - Gigi Capobianco Fund	46,329	44,895
Total Board Designated Net Assets	7,303,538	7,461,537
Undesignated	7,491,779	6,416,367
Total Unrestricted Net Assets	14,795,317	13,877,904
Temporarily Restricted	1,453,408	2,251,407
Permanently Restricted	19,492,902	19,078,049
Total Net Assets	35,741,627	35,207,360
Total Liabilities and Net Assets	\$ 39,727,031	\$ 39,407,092

**THE ACADEMY OF VOCAL ARTS  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>								
Operating Activities								
Contributions and Grants	\$ 2,053,847	\$ 152,125	\$ -	\$ 2,205,972	\$ 1,896,223	\$ 16,319	\$ -	\$ 1,912,542
Investment Income	1,358,000	-	-	1,358,000	1,342,000	-	-	1,342,000
Rental Income	-	-	-	-	2,122	-	-	2,122
Theatre/School Related Revenue	316,871	-	-	316,871	295,865	-	-	295,865
Total Operating Activities	3,728,718	152,125	-	3,880,843	3,536,210	16,319	-	3,552,529
Other Activities								
Contributions	-	504,264	727,381	1,231,645	-	1,088,723	914,784	2,003,507
Change in Value of Beneficial Interests in Trusts	-	(4,696)	(184,196)	(188,892)	-	4,798	821,312	826,110
Unrealized and Realized Gains (Losses) on Investments, Net	(280,895)	2,959	(128,332)	(406,268)	1,040,225	12,093	1,114,122	2,166,440
Other Investment Loss	(110)	-	-	(110)	(843)	-	-	(843)
Subtotal	3,447,713	654,652	414,853	4,517,218	4,575,592	1,121,933	2,850,218	8,547,743
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	1,452,651	(1,452,651)	-	-	2,433,645	(2,433,645)	-	-
Total Revenues, Gains, and Other Support	4,900,364	(797,999)	414,853	4,517,218	7,009,237	(1,311,712)	2,850,218	8,547,743
<b>EXPENSES</b>								
Operating Activities	3,667,948	-	-	3,667,948	3,427,868	-	-	3,427,868
Depreciation and Amortization Expense	315,003	-	-	315,003	251,722	-	-	251,722
Total Expenses	3,982,951	-	-	3,982,951	3,679,590	-	-	3,679,590
<b>CHANGE IN NET ASSETS</b>	917,413	(797,999)	414,853	534,267	3,329,647	(1,311,712)	2,850,218	4,868,153
Net Assets - Beginning of Year	13,877,904	2,251,407	19,078,049	35,207,360	10,548,257	3,563,119	16,227,831	30,339,207
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 14,795,317</u>	<u>\$ 1,453,408</u>	<u>\$ 19,492,902</u>	<u>\$ 35,741,627</u>	<u>\$ 13,877,904</u>	<u>\$ 2,251,407</u>	<u>\$ 19,078,049</u>	<u>\$ 35,207,360</u>

See accompanying Notes to Financial Statements.

**THE ACADEMY OF VOCAL ARTS  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 534,267	\$ 4,868,153
Adjustments to Reconcile Change in Net Assets to Net Cash		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	315,003	251,722
Unrealized and Realized Losses (Gains) on Investments, Net	406,268	(2,166,440)
Change in Value of Beneficial Interests in Trusts	188,892	(826,110)
Permanently Restricted Contributions for Endowment	(673,741)	(1,320,741)
Donated Property Available for Use or Sale	(11,000)	-
(Increase) Decrease in:		
Grants Receivable	47,500	55,696
Pledges Receivable	792,976	53,933
Other Receivables	(12,438)	2,361
Prepaid Expenses and Deposits	71,900	(19,025)
Increase (Decrease) in:		
Accounts Payable	1,161	(2,817)
Payroll Taxes and Employer 403(b) Match Payable	3,380	(505)
Accrued Expenses	(22,043)	41,321
Deferred Income	(38,144)	(24,607)
Net Cash Provided by Operating Activities	1,603,981	912,941
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(3,424,759)	(6,597,369)
Proceeds from Sale of Investments	1,453,641	2,910,164
Proceeds from Sale of Donated Property	-	392,850
Purchase of Property and Equipment	(188,345)	(902,127)
Net Cash Used by Investing Activities	(2,159,463)	(4,196,482)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments for Equipment through Capital Lease Obligation	(9,461)	(6,660)
Payments to Beneficiaries	(3,920)	(402)
Payment of Deferred Financing Costs	-	(30,041)
Repayments of Mortgage	(145,301)	(70,941)
Proceeds from Mortgage	-	4,080,000
Retirement of Line of Credit	-	(1,860,000)
Permanently Restricted Contributions for Endowment	673,741	1,320,741
Net Cash Provided by Financing Activities	515,059	3,432,697
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(40,423)	149,156
Cash and Cash Equivalents- Beginning of Year	371,430	222,274
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 331,007	\$ 371,430
<b>SUPPLEMENTAL INFORMATION</b>		
Interest Paid During the Year	\$ 148,953	\$ 84,333
Non-Cash Disclosure of Investing in Financing Activities:		
Purchase of equipment through capital lease obligations	-	\$ 16,940
Less value of like-kind exchange for capital lease purchase	-	-
Financing through capital lease obligation	-	(16,940)
Less trade-in value of prior capital lease equipment	-	-
	\$ -	\$ -

See accompanying Notes to Financial Statements.



**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 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, 2015 AND 2014**

**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, 2015 and 2014, 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, 2015 AND 2014**

**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 2012 to 2014 are open to examination by the IRS and State authorities.

**Financial Statement Reclassifications**

Reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

**Subsequent Events**

In preparing these financial statements, The Academy has evaluated events and transactions for potential recognition or disclosure through September 1, 2015, the date the financial statements were available to be issued.

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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, 2015 and 2014, grants and pledges receivable consisted of:

	2015	2014
Total Grants and Pledges Receivable	\$ 1,444,738	\$ 2,300,799
Less: Adjustment to Net Present Value	63,589	79,174
Grants and Pledges Receivable, Net	\$ 1,381,149	\$ 2,221,625

Pledges receivable at June 30, 2015 are expected to be collected in future years as follows:

Less than 1 year	\$ 516,996
1 to 5 years	852,742
More than 5 years	75,000
Total Grants and Pledges Receivable	\$ 1,444,738

**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 \$16,265. During the years ended June 30, 2015 and 2014, the donor also contributed \$93,415 and \$530,000, respectively, towards this commitment. The remaining commitment as of June 30, 2015 is \$1,500,000.

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 5 INVESTMENTS**

Investments are composed of the following at June 30, 2015 and 2014:

	2015	
	Cost	Fair Value
Investments:		
Equity Mutual Funds	\$ 13,039,274	\$ 16,994,355
Fixed Income Mutual Funds	7,587,731	7,428,120
Subtotal	\$ 20,627,005	\$ 24,422,475
	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

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, 2015 and 2014, the fair value of this trust is \$7,564,175 and \$7,748,371, respectively.

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 \$45,720 at June 30, 2015 and \$50,416 at June 30, 2014.

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, 2015 and 2014 are:

	2015			Total
	Level 1	Level 2	Level 3	
Investments:				
Equity Mutual Funds	\$ 16,994,355	\$ -	\$ -	\$ 16,994,355
Fixed Income Mutual Funds	7,428,120	-	-	7,428,120
Beneficial Interests in Trusts *	7,564,175	-	45,720	7,609,895
	<u>\$ 31,986,650</u>	<u>\$ -</u>	<u>\$ 45,720</u>	<u>\$ 32,032,370</u>
	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>

\* See description of composition of assets in Note 5.

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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, 2015 and 2014:

	2015
	Beneficial Interests in Trusts
Balance at July 1, 2014	\$ 50,416
Change in Value of Trust	(4,696)
Balance at June 30, 2015	\$ 45,720
	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

**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 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.

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 8 ENDOWMENT NET ASSETS (CONTINUED)**

Distributions were made in accordance with the spending policy. For the year ended June 30, 2015 the Board of Directors approved the available election of up to 6.25% and the Academy received approximately 6.0% and 6.25% of these investments, based on a three year average, during the years ended June 30, 2015 and 2014, respectively.

In June 2012, the Academy entered into an investment advisory agreement. Advisory fees amounted to \$30,166 and \$27,360 for the years ended June 30, 2015 and 2014, respectively.

A summary of the endowment activity by net asset class for the years ended June 30, 2015 and 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2013	\$ 7,878,007	\$ 229,125	\$ 8,772,602	\$ 16,879,734
Investment Return:				
Investment Income	264,634	-	252,182	516,816
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 Contributions	59,400	-	1,108,469	1,167,869
Fellowship Disbursements	(50,600)	-	(156,150)	(206,750)
Giargiari Prize Disbursement	-	-	(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
Investment Return:				
Investment Income	294,736	-	281,798	576,534
Realized and Unrealized Gains, Net of Expenses	94,686	-	88,802	183,488
Total Investment Return	389,422	-	370,600	760,022
Fellowship, Giargiari Prize, and Music Director Chair Contributions	49,200	-	468,265	517,465
Fellowship Disbursements	(55,375)	-	(185,725)	(241,100)
Music Director Chair and Giargiari Prize Disbursements	-	-	(47,500)	(47,500)
Net Contributions	1,365,984	-	205,476	1,571,460
Distributions of Endowment Income	(670,293)	-	(265,707)	(936,000)
Endowment Net Assets, June 30, 2015	<u>\$ 12,592,610</u>	<u>\$ -</u>	<u>\$ 11,752,874</u>	<u>\$ 24,345,484</u>



**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 IRS life expectancy tables and discount rates ranging from 3.4% to 5.8% 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. Interest amounting to \$26,569 for the year ended June 30, 2014 was charged on this line of credit at the prime lending rate less .50% (2.75% at June 30, 2014). 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 \$4,005 and \$2,337 for the years ended June 30, 2015 and 2014, respectively. Interest expense on this mortgage was \$139,544 and \$82,196 for the years ended June 30, 2015 and 2014, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	150,542
2017	155,972
2018	161,597
2019	167,426
2020	173,465
Thereafter	3,054,756
Total Mortgage Payable	<u>\$ 3,863,758</u>

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 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 \$50,526 for the year ended June 30, 2015 and \$42,868 for the year ended June 30, 2014.

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 and approved in February 2015. Estimated costs of \$32,000 for the VCP were recorded in the year ended June 30, 2014 with approximately \$28,000 of these costs paid during the year ended June 30, 2015.

**NOTE 12 OPERATING LEASE**

The Academy rents storage space under an operating lease agreement for \$1,952 per month. The rent for the storage space is subject to 2.5% annual increases through the lease term. As of June 30, 2015, future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 23,907
2017	24,505
2018	25,118
2019	25,745
2020	26,389
Thereafter	147,174
Total	<u>\$ 272,838</u>

Rental expense was approximately \$25,000 and \$24,000 for the years ended June 30, 2015 and 2014, respectively.

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Printers/Copiers & Related Equipment Cost	\$ 56,727	\$ 56,727
Less: Accumulated Depreciation	24,128	12,783
Total Equipment Under Capital Lease	<u>\$ 32,599</u>	<u>\$ 43,944</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, 2015:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 19,788
2017	19,788
2018	13,288
2019	<u>3,141</u>
Total Minimum Lease Payments	56,005
Less: Imputed Interest	<u>13,360</u>
Present value of net minimum lease payments	<u>\$ 42,645</u>

Depreciation expense related to the assets under capital leases is included in the Statements of Activities for 2015 and 2014 and amounts to \$11,345 and \$8,804, 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>2015</u>	<u>2014</u>
Program	\$ 2,795,877	\$ 2,663,547
Management and General	548,327	525,158
Fundraising	638,747	490,885
Total Expenses	<u>\$ 3,982,951</u>	<u>\$ 3,679,590</u>

**THE ACADEMY OF VOCAL ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 15 RESTRICTED NET ASSETS**

Restricted net assets as of June 30, 2015 and 2014 are restricted for the following purposes:

	2015	2014
<u>Temporarily Restricted</u>		
<u>Purpose Restricted</u>		
Pooled Income Funds	\$ 76,992	\$ 133,440
Operational Contingency	100,000	100,000
Student Aid	10,966	5,841
Foundation Pledges	65,000	-
Total Purpose Restricted	252,958	239,281
<u>Time Restricted For:</u>		
Operations	6,900	6,900
Campaign Giving and Pledges	659,404	1,407,709
Donor Pledge	481,291	481,291
Foundation Pledges	-	52,500
Charitable Remainder Trusts	45,720	50,416
Annual Fellowships	7,135	13,310
Total Time Restricted	1,200,450	2,012,126
Total Temporarily Restricted	\$ 1,453,408	\$ 2,251,407
 <u>Permanently Restricted</u>		
School Endowment Fund	\$ 5,283,451	\$ 5,377,352
Campaign Endowments	376,985	364,967
Adele Warden Paxson Fellowship	108,276	109,354
Alumni Challenge	8,517	8,253
Ann B. Ritt Fellowship	107,212	108,323
Ariel G. Loewy Fellowship	108,631	109,673
Bryan Hymel Comprehensive Scholarship/Fellowship	350,987	-
Bryan Hymel Travel Fund	97,782	-
Bucks County Opera Association Fellowship	115,315	115,683
Cecile K. Dalton Memorial Fund	60,639	-
Celia Mones Rudolph Fellowship	108,278	109,356
Charlotte DeSerio Watts Fellowship	107,852	108,943
Christel Nyheim Fellowship	107,921	109,010
Cornell MacNeil Fellowship	271,769	273,988
David A. and Helen P. Horn Fellowship	120,472	-
David Poleri Fellowship	271,768	273,987
Edward Costa Dolbey Fellowship	119,906	120,132
Eugene M. and Ronnie F. Isenberg Fellowship	112,729	114,161
Eve Nyheim Fellowship	125,729	126,267
Franca Warden Fellowship	44,148	44,159
Gordon K. Greenfield Fellowship	128,753	129,197
James Morris Fellowship	113,239	114,163
James Pease Fellowship	273,059	275,287
Jeannine B. Cowles Fellowship	322,395	323,489
Jeannine B. Cowles Music Director Chair	1,035,858	956,122
Jeffrey Kneebone Fellowship	271,768	273,987
John Nyheim Fellowship	116,247	117,078
Leonard Warren Fellowship	273,111	275,288
New Century Fellowship	113,737	114,621
Palamara Fellowship	109,404	110,423
Parkinson Memorial Fund	57,545	58,225
Peggy MacLaren Ulrich Comprehensive Scholarship/Fellowship	381,199	378,257
Placido Domingo Fellowship	114,893	115,766
Robert Merrill Fellowship	114,705	115,584
Robert Weede Fellowship	271,794	273,987
Ruth Ann Swenson Fellowship	110,443	111,454
Sally Paxson Davis Fellowship	112,210	113,142
Warden Trust	7,564,175	7,748,371
Total Permanently Restricted	\$ 19,492,902	\$ 19,078,049

**THE ACADEMY OF VOCAL ARTS**  
**SCHEDULES OF ACTIVITIES – OPERATING (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2015 AND 2014**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2015	2014
<b>SCHEDULE OF OPERATING SUPPORT</b>		
<b>AND REVENUE</b>		
Contributions, General	\$ 520,114	\$ 547,195
Corporate and Foundation Grants	170,401	157,130
Net Assets (Gifts Received in Prior Years) Released from Restrictions for Operations	200,082	172,873
Government Grants	45,508	40,583
Bequests	609,658	510,000
Fellowship Award Contributions	234,925	206,750
Investment Income		
Trust Fund	422,000	424,000
Endowment	801,000	798,000
Mortgage Proceeds	135,000	120,000
Other Investment Loss	(110)	(843)
Box Office Receipts	248,738	242,470
Worldwide Ambassadors Council	11,380	52,434
Gala Receipts	386,371	305,737
Bucks County Opera Association	43,377	43,945
Main Line Opera Association	28,411	26,400
Audition Fees	18,700	18,300
Concert Bureau	30,598	21,645
Special Events Revenue	18,835	13,450
Rental Income	-	2,122
Miscellaneous Income	3,702	6,049
Total Operating Support and Revenue	3,928,690	3,708,240
 <b>SCHEDULE OF OPERATING EXPENSES</b>		
Personnel		
Administrative Salaries	307,000	282,000
Educational Salaries	367,788	368,050
Production Salaries	434,167	422,500
Fundraising Salaries	248,764	156,601
Marketing Salaries	71,615	54,585
Payroll Taxes	110,903	100,455
Health Insurance	153,120	160,064
Retirement Plan	50,526	74,591
Total Personnel Expenses	1,743,883	1,618,846
Office		
Supplies and Expense	22,871	31,265
Entertainment and Board Meetings	25,761	10,183
Staff Development	1,558	3,192
Directors and Officers Insurance	7,217	7,954
Audit/Professional Fees	43,778	47,587
Capital Lease Interest	9,803	10,465
Computer	40,090	39,081
Tessitura	23,253	21,670
Website	12,970	6,704
Telephone	9,718	13,113
Total Office Expenses	197,019	191,214

**THE ACADEMY OF VOCAL ARTS**  
**SCHEDULES OF ACTIVITIES – OPERATING (CONTINUED) (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2015 AND 2014**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2015	2014
<b>School</b>		
Faculty and Coaches Fees	\$ 57,333	\$ 55,019
Supplies and Expenses	1,071	623
Library	1,597	2,492
Piano Tuning and Repairs	10,580	9,006
Recruitment and Auditions	527	400
Publicity	17,469	14,548
Accreditation and Memberships	7,822	1,914
Work Study Disbursements	4,792	7,362
Other School Expenses	688	2,175
Total School Expenses	101,879	93,539
<b>Building</b>		
Insurance	38,439	66,906
Mortgage Interest - 1916 Spruce Street	139,544	83,617
Local Taxes and Assessments	1,995	12,705
Custodial Fees	45,000	40,000
Repairs and Maintenance	24,480	27,114
Utilities	42,280	39,643
Rental Property	-	2,945
Household Supplies and Expenses	5,501	5,880
Total Building Expenses	297,239	278,810
<b>Production Expenses</b>		
Contracted fees	114,450	138,100
Stage Director expenses	2,094	5,958
Costumes	26,376	39,331
Printing, Postage, and Promotion	93,318	86,047
Broadcasts	19,440	19,140
Set Design, Construction, Transportation, and Storage	85,981	71,321
Lighting Design and Expenses	11,509	14,592
Props, Make-Up, and Wigs	10,031	14,880
Orchestra and Chorus	262,896	249,224
Stage Hands	952	875
Theater Rentals and Opera Expenses	48,003	51,514
Music and Instrument Rental	12,375	8,184
Box Office Fees and Expenses	19,868	17,174
Concert Bureau Expense	31,640	19,755
Total Production Expenses	738,933	736,095
<b>Other</b>		
Student Fellowship Awards	241,100	206,750
Student Grants	7,000	1,036
Gala Expenses	235,639	92,391
Bucks County Opera Association	23,313	28,627
Main Line Opera Association	4,608	8,000
Fund Raising Expenses	46,665	26,251
Worldwide Ambassadors Council	15,713	13,750
Campaign Fees and Expenses	-	115,717
Friends of AVA Expenses	14,957	16,842
Total Other Expenses	588,995	509,364
Total Operating Expenses	3,667,948	3,427,868
Excess Operating Support and Revenue Over Operating Expenses	\$ 260,742	\$ 280,372

**THE ACADEMY OF VOCAL ARTS**  
**SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ASSETS AND NET ASSETS**  
**JUNE 30, 2015 AND 2014**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash	\$ 109	\$ 1,496
Investments:		
Equity Mutual Funds	5,271,324	5,471,384
Fixed Income Mutual Funds	<u>2,292,742</u>	<u>2,275,491</u>
 Total Assets	 <u>\$ 7,564,175</u>	 <u>\$ 7,748,371</u>
 <b>NET ASSETS - Permanently Restricted</b>	 <u>\$ 7,564,175</u>	 <u>\$ 7,748,371</u>

**THE ACADEMY OF VOCAL ARTS**  
**SCHEDULES OF BENEFICIAL INTEREST IN PERPETUAL TRUST ACTIVITIES**  
**YEARS ENDED JUNE 30, 2015 AND 2014**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2015</u>	<u>2014</u>
Investment Income	\$ 183,275	\$ 185,582
Unrealized and Realized Gains on Investments	<u>67,602</u>	<u>1,072,311</u>
Total Revenue	250,877	1,257,893
Trust Expenses	13,073	12,581
Distributions to the Academy of Vocal Arts	<u>422,000</u>	<u>424,000</u>
Total Expenses	<u>435,073</u>	<u>436,581</u>
Change in Net Assets	(184,196)	821,312
Trust Net Assets - Beginning of Year	<u>7,748,371</u>	<u>6,927,059</u>
Trust Net Assets - End of Year	<u>\$ 7,564,175</u>	<u>\$ 7,748,371</u>