PENNSYLVANIA ACADEMY OF THE FINE ARTS

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2015
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Pennsylvania Academy of Fine Arts
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of Pennsylvania Academy of Fine Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets and cash flows for the year 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.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Academy of Fine Arts as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.
Board of Trustees
Pennsylvania Academy of the Fine Arts
Philadelphia, Pennsylvania

Report on Summarized Comparative Information

We have previously audited Pennsylvania Academy of Fine Arts’ 2014 financial statements, and our report dated November 24, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Philadelphia, Pennsylvania
October 8, 2015
PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 And 2014

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 6,170,971</td>
<td>$ 32,706,086</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>230,858</td>
<td>108,567</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>544,125</td>
<td>456,071</td>
</tr>
<tr>
<td>Inventories</td>
<td>95,352</td>
<td>105,214</td>
</tr>
<tr>
<td>Pledges receivable <em>(Notes 3 and 11)</em></td>
<td>2,536,035</td>
<td>1,201,520</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>9,577,341</td>
<td>34,577,458</td>
</tr>
<tr>
<td><strong>LONG-TERM ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges receivable <em>(Notes 3 and 11)</em></td>
<td>2,304,195</td>
<td>999,871</td>
</tr>
<tr>
<td>Other assets <em>(Note 8)</em></td>
<td>373,144</td>
<td>615,856</td>
</tr>
<tr>
<td>Long term investments <em>(Notes 4 and 7)</em></td>
<td>40,151,026</td>
<td>15,900,403</td>
</tr>
<tr>
<td>Property, buildings and equipment <em>(Note 5)</em></td>
<td>46,044,431</td>
<td>45,133,017</td>
</tr>
<tr>
<td>Funds held by Trustee <em>(Note 8)</em></td>
<td>-</td>
<td>700,695</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trusts <em>(Notes 4 and 6)</em></td>
<td>10,097,617</td>
<td>9,833,828</td>
</tr>
<tr>
<td><strong>Total Long-Term Assets</strong></td>
<td>98,970,413</td>
<td>73,183,670</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$ 108,547,754</td>
<td>$ 107,761,128</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS |             |             |
| **CURRENT LIABILITIES** |             |             |
| Line of credit *(Note 7)* | $ 580,000 | $ 2,200,000 |
| Current maturities of long term debt *(Note 8)* | - | 550,000 |
| Accounts payable | 1,468,572 | 806,615 |
| Accrued expenses | 264,978 | 337,212 |
| Deferred revenue | 1,260,710 | 1,664,845 |
| **Total Current Liabilities** | 3,574,260 | 5,558,672 |
| **LONG-TERM LIABILITIES** |             |             |
| Bonds payable *(Note 8)* | 21,000,000 | 18,200,000 |
| Other liabilities *(Notes 4 and 8)* | 379,167 | 160,996 |
| **Total Liabilities** | 24,953,427 | 23,919,668 |
| **NET ASSETS** |             |             |
| Unrestricted net assets | 55,255,739 | 57,116,793 |
| Temporarily restricted net assets *(Note 10)* | 2,574,552 | 1,295,297 |
| Permanently restricted net assets *(Note 10)* | 25,764,036 | 25,429,370 |
| **Total Net Assets** | 83,594,327 | 83,841,460 |
| **Total Liabilities and Net Assets** | $ 108,547,754 | $ 107,761,128 |

The accompanying notes are an integral part of these statements.
# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2015 With Summarized Information For 2014

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program Revenues, Support Revenue and Investment Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Program Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees, net of scholarships</td>
<td>$5,882,258</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Continuing and public education</td>
<td>833,064</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government grants</td>
<td>173,474</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Museum admissions, collection rental and fees</td>
<td>403,887</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Museum shop and art supply store, net</td>
<td>175,191</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facility rental and catering</td>
<td>290,820</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Women’s Board</td>
<td>296,002</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>245,585</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total program revenue</strong></td>
<td>8,300,281</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Support Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fundraising and support revenues</td>
<td>4,146,316</td>
<td>4,559,879</td>
<td>70,877</td>
</tr>
<tr>
<td>Bequests</td>
<td>1,478,097</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total support revenue</strong></td>
<td>5,624,413</td>
<td>4,559,879</td>
<td>70,877</td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment income designated for operations (Note 4)</td>
<td>627,000</td>
<td>174,000</td>
<td>-</td>
</tr>
<tr>
<td>Income from outside trusts</td>
<td>755,385</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total investment income</strong></td>
<td>1,382,385</td>
<td>174,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions (Note 10)</strong></td>
<td>2,886,160</td>
<td>(2,886,160)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total operating program, support and investment income</strong></td>
<td>18,193,239</td>
<td>1,847,719</td>
<td>70,877</td>
</tr>
</tbody>
</table>

## Program and Support Expenses

**Program Expenses**

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>School</td>
<td>7,375,424</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Continuing and public education</td>
<td>1,126,635</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Women’s Board</td>
<td>76,007</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Museum and exhibition</td>
<td>3,253,032</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total program expenses</strong></td>
<td>11,831,098</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Support Function Expenses**

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and general</td>
<td>1,583,024</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facility rental and catering</td>
<td>160,198</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Development and fundraising</td>
<td>1,452,603</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total program and support expenses</strong></td>
<td>3,195,825</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in net assets before depreciation, gains (losses) and other income (expenses)</strong></td>
<td>3,166,316</td>
<td>1,847,719</td>
<td>70,877</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>1,602,187</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in net assets before gains (losses) and other income (expenses)</strong></td>
<td>1,564,129</td>
<td>1,847,719</td>
<td>70,877</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
### PENNSYLVANIA ACADEMY OF THE FINE ARTS

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS – (Continued)**

**Year Ended June 30, 2015 With Summarized Information For 2014**

#### Gains (Losses) and Other Income (Expenses)

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 Unrestricted</th>
<th>2015 Temporarily Restricted</th>
<th>2015 Permanently Restricted</th>
<th>2014 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment return in excess (deficit) of amount designated for current operations <em>(Notes 4 and 10)</em></td>
<td>(221,308)</td>
<td>(568,464)</td>
<td>-</td>
<td>(789,772)</td>
</tr>
<tr>
<td>Other investment income <em>(Note 4)</em></td>
<td>23,926</td>
<td>-</td>
<td>23,926</td>
<td>-</td>
</tr>
<tr>
<td>Contribution of beneficial interest in perpetual trusts <em>(Notes 4, 6 and 10)</em></td>
<td>-</td>
<td>-</td>
<td>647,476</td>
<td>647,476</td>
</tr>
<tr>
<td>Change in beneficial interest in perpetual trusts <em>(Notes 4 and 10)</em></td>
<td>-</td>
<td>-</td>
<td>(383,687)</td>
<td>(383,687)</td>
</tr>
<tr>
<td>Change in market value of interest rate swap <em>(Note 8)</em></td>
<td>(218,171)</td>
<td>-</td>
<td>-</td>
<td>(218,171)</td>
</tr>
<tr>
<td>Loss on financing <em>(Note 8)</em></td>
<td>(446,984)</td>
<td>-</td>
<td>-</td>
<td>(446,984)</td>
</tr>
<tr>
<td>Proceeds from art sales</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Collection items purchased but not capitalized</td>
<td>(2,562,646)</td>
<td>-</td>
<td>-</td>
<td>(2,562,646)</td>
</tr>
<tr>
<td><strong>Total non-operating revenue, expenses and gain (losses)</strong></td>
<td>(3,425,183)</td>
<td>(568,464)</td>
<td>263,789</td>
<td>(3,729,858)</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>(1,861,054)</td>
<td>1,279,255</td>
<td>334,666</td>
<td>(247,133)</td>
</tr>
</tbody>
</table>

#### Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 Unrestricted</th>
<th>2015 Temporarily Restricted</th>
<th>2015 Permanently Restricted</th>
<th>2014 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning</td>
<td>57,116,793</td>
<td>1,295,297</td>
<td>25,429,370</td>
<td>83,841,460</td>
</tr>
<tr>
<td>End of year</td>
<td>55,255,739</td>
<td>2,574,552</td>
<td>25,764,036</td>
<td>83,594,327</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 And 2014

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$ (247,133)</td>
<td>$ 32,310,652</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>1,602,187</td>
<td>1,664,901</td>
</tr>
<tr>
<td>Net unrealized depreciation (appreciation) on long-term investments</td>
<td>1,008,162</td>
<td>(1,872,235)</td>
</tr>
<tr>
<td>Net realized gains on long-term investments</td>
<td>(549,623)</td>
<td>(139,204)</td>
</tr>
<tr>
<td>Contribution of beneficial interest in perpetual trusts</td>
<td>(647,476)</td>
<td>-</td>
</tr>
<tr>
<td>Net unrealized depreciation (appreciation) on outside perpetual trusts</td>
<td>383,687</td>
<td>(844,831)</td>
</tr>
<tr>
<td>Accrued interest earned on note receivable</td>
<td>(5,363)</td>
<td>(6,338)</td>
</tr>
<tr>
<td>Forgiveness of note receivable</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Loss on financing</td>
<td>446,984</td>
<td>-</td>
</tr>
<tr>
<td>Change in market value of swap</td>
<td>218,171</td>
<td>(166,651)</td>
</tr>
<tr>
<td>(Increase) decrease in assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(122,291)</td>
<td>82,647</td>
</tr>
<tr>
<td>Inventories</td>
<td>9,862</td>
<td>147,549</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>(2,638,839)</td>
<td>(1,593,033)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>(88,054)</td>
<td>(183,290)</td>
</tr>
<tr>
<td>Funds held by trustee</td>
<td>700,695</td>
<td>10,062</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>661,957</td>
<td>161,097</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(72,234)</td>
<td>80,523</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(404,135)</td>
<td>417,691</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>276,557</td>
<td>30,089,540</td>
</tr>
</tbody>
</table>

| CASH FLOWS FROM INVESTING ACTIVITIES |            |            |
| Purchase of property and equipment   | (2,513,601)| (748,964)  |
| Purchases of long-term investments   | (27,599,553)| (3,103,270)|
| Proceeds from sale of long-term investments | 2,890,391  | 3,375,668  |
| Net cash used for investing activities | (27,222,763)| (476,566)  |

| CASH FLOWS FROM FINANCING ACTIVITIES |            |            |
| Repayment of note payable            | -          | (85,127)   |
| Payment of bond issuance costs       | (218,909)  | -          |
| Net proceeds/(repayments) from line of credit | (1,620,000) | 500,000    |
| Issuance of long-term debt           | 21,000,000 | -          |
| Repayment on bonds payable           | (18,750,000)| (525,000)  |
| Net cash provided by (used for) financing activities | 411,091    | (110,127)  |
| Net (decrease) increase in cash and cash equivalents | (26,535,115)| 29,502,847|

| CASH AND CASH EQUIVALENTS |            |            |
| Beginning of year           | 32,706,086 | 3,203,239  |
| End of year                 | $ 6,170,971| $ 32,706,086|

| SUPPLEMENTAL INFORMATION |            |            |
| Cash paid for interest     | $ 665,627  | $ 614,891  |

The accompanying notes are an integral part of these statements.
(1) NATURE OF ORGANIZATION

The Pennsylvania Academy of the Fine Arts (the “Academy”) is the first and oldest American art school and museum in the United States. The Academy’s mission is to combine studio instruction and direct contact with historic and contemporary art objects. The museum collects, preserves, exhibits and interprets works of American art, both historic and contemporary, for the benefit of public education. The museum is committed to expanding knowledge of, and appreciation for, American artists and their work. The education program has five divisions – a four-year certificate program, offering majors in painting, drawing, sculpting and printmaking; a degree granting program leading to a Bachelor of Fine Arts; a post baccalaureate program; a degree granting program leading to a Master of Fine Arts; and active continuing and public education programs. Students may also earn a Bachelor of Fine Arts Degree via a collaborative program with the University of Pennsylvania.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Academy are described below.

BASIS OF PRESENTATION

CASH EQUIVALENTS
The Academy considers highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. The decrease in cash and cash equivalents during 2015 related to those funds being transferred to long-term investments.

CONCENTRATION OF CREDIT RISK
The Academy occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“ASC”) 825, “Financial Instruments”, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

The Academy’s principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the Academy’s investment goals for total investment return, yield, and tolerance of investment risk and investment turnover. The degree and concentration of credit risk vary by the type of investment.

USE OF ESTIMATES
The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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.

INVESTMENTS
The Academy records investments at fair market value. Fair value of investments is determined using quoted market prices of a national securities exchange. Unrealized and realized gains and losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.
PROPERTY, BUILDINGS AND EQUIPMENT
Property, buildings and equipment are stated at cost or appraised value at the date of donation.

Maintenance, repairs and minor renewals are charged to expense. Major renewals, improvements or renovations which prolong the life of the assets are capitalized. The cost of current additions to exhibits, books and art literature is charged to expense. A portion of such cost may be reimbursed by designated contributed funds and income of certain endowment funds.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives are as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>10 – 40 years</td>
</tr>
<tr>
<td>Building improvement</td>
<td>10 – 20 years</td>
</tr>
<tr>
<td>Equipment, furniture and fixtures</td>
<td>3 – 5 years</td>
</tr>
</tbody>
</table>

FUNDs HELD IN TRUST BY OTHERS
The Academy is the recipient/beneficiary of several irrevocable perpetual trust arrangements which are held by others. The Academy accounts for perpetual trusts held by third parties at the fair value of the assets.

WORKS OF ART
The Academy maintains a collection of rare American art that is held for public exhibition. The collection is kept under curatorial care and is subject to the Academy’s policy that requires the proceeds from the sales of accessioned collection items to be used only to acquire other items for collection. The Academy does not recognize the contributions of donated collection items, as its collections are not capitalized. During the year ended June 30, 2015 and 2014, the Academy had donated accessions with approximate appraised values totaling $883,200 and $660,555, respectively. Collection items purchased but not capitalized totaled $2,562,646 and $546,412 during the years ended June 30, 2015 and 2014, respectively. In addition, the Academy received $30,700,000 for the sale of art works during the year ended June 30, 2014.

INCOME TAXES
The Academy has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code, which is not a private foundation under Section 509(a) of the Code, and files a Form 990 (Return of Organization Exempt from Income Tax) annually for information purposes. Accordingly, no provision for income taxes is provided in the accompanying financial statements.

The Academy has reviewed its tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on federal and state tax returns for the open tax years (2012 – 2014) or is expected to be taken in the current year.
NET ASSETS
Net assets are classified as unrestricted, temporarily restricted or permanently restricted in accordance with donor imposed restrictions. Each of these three classes of net assets are displayed in the financial statements and the amounts of changes in each of those classes of net assets are displayed in the statements of operations and changes in net assets.

Unrestricted net assets include the revenues and expenses associated with the principal mission of the Academy.

Temporarily restricted net assets include gifts which are subject to donor-imposed restrictions. The Academy’s temporarily restricted net assets are intended, by the donors, to be used for lecture series, library resources, medal and awards programs, and other purposes.

Permanently restricted net assets include gifts, trusts and bequests which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

CONTRIBUTIONS
Pledges from donors for unrestricted and restricted contributions are recorded as revenue in the year received.

The Academy reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions.”

ALLOCATION OF FUNCTIONAL EXPENSES
The costs of providing the Academy’s programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the various programs.

PRIOR YEAR INFORMATION
The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Academy’s financial statements for the year ended June 30, 2014, from which the summarized information was derived.

RECLASSIFICATION
Certain account balances in the 2014 financial statements have been reclassified to conform to the 2015 financial statements.
PENNSYLVANIA ACADEMY OF THE FINE ARTS

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2015 And 2014

(3) PLEDGES RECEIVABLE

Current pledges receivable consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Campaign pledges receivable</td>
<td>$ 3,010,487</td>
<td>$ 1,805,003</td>
</tr>
<tr>
<td>Major Gifts pledges receivable</td>
<td>1,829,743</td>
<td>396,388</td>
</tr>
<tr>
<td><strong>Total Pledges Receivable</strong></td>
<td><strong>$ 4,840,230</strong></td>
<td><strong>$ 2,201,391</strong></td>
</tr>
</tbody>
</table>

The Academy had pledges receivable relating to the capital campaign and major gifts as of June 30 as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pledges receivable Capital Campaign:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Past due and due within a year</td>
<td>$ 1,742,528</td>
<td>$ 1,016,570</td>
</tr>
<tr>
<td>Due between one and five years</td>
<td>1,434,000</td>
<td>955,000</td>
</tr>
<tr>
<td>Pledges receivable, gross</td>
<td>3,176,528</td>
<td>1,971,570</td>
</tr>
<tr>
<td>Less allowance for uncollectibles and discount</td>
<td>(166,041)</td>
<td>(166,567)</td>
</tr>
<tr>
<td><strong>Pledges receivable Capital Campaign, net</strong></td>
<td><strong>$ 3,010,487</strong></td>
<td><strong>$ 1,805,003</strong></td>
</tr>
</tbody>
</table>

Pledges receivable Major Gifts:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within a year</td>
<td>$ 982,690</td>
<td>$ 334,250</td>
</tr>
<tr>
<td>Due between one and three years</td>
<td>925,000</td>
<td>63,000</td>
</tr>
<tr>
<td>Pledges receivable, gross</td>
<td>1,907,690</td>
<td>397,250</td>
</tr>
<tr>
<td>Less allowance for uncollectibles and discount</td>
<td>(77,947)</td>
<td>(862)</td>
</tr>
<tr>
<td><strong>Pledges receivable Major Gifts, net</strong></td>
<td><strong>$ 1,829,743</strong></td>
<td><strong>$ 396,388</strong></td>
</tr>
</tbody>
</table>

(4) INVESTMENTS

Investments consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th><strong>Cost</strong></th>
<th><strong>Unrealized Gains</strong></th>
<th><strong>Unrealized Losses</strong></th>
<th><strong>Market Value</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>$ 5,211,886</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 5,211,886</td>
</tr>
<tr>
<td>Common Stocks</td>
<td>17,200,151</td>
<td>1,805,848</td>
<td>-</td>
<td>19,005,999</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>76,298</td>
<td>4,828</td>
<td>-</td>
<td>81,126</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>15,048,439</td>
<td>563,919</td>
<td>-</td>
<td>15,612,358</td>
</tr>
<tr>
<td>Pooled Investment Fund/Hedge Fund</td>
<td>249,416</td>
<td>-</td>
<td>(9,759)</td>
<td>239,657</td>
</tr>
</tbody>
</table>

**Total** | **$ 37,786,190** | **$ 2,374,595** | **($9,759)** | **$ 40,151,026**
NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2015 And 2014

<table>
<thead>
<tr>
<th>Permanently Restricted</th>
<th>2014</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>$159,935</td>
<td>$-</td>
<td>$-</td>
<td>$159,935</td>
</tr>
<tr>
<td>Common Stocks</td>
<td>4,297,200</td>
<td>2,244,083</td>
<td>$-</td>
<td>6,541,283</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>76,298</td>
<td>9,012</td>
<td>$-</td>
<td>85,310</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>7,993,972</td>
<td>1,119,903</td>
<td>$-</td>
<td>9,113,875</td>
</tr>
<tr>
<td></td>
<td>$12,527,405</td>
<td>$3,372,998</td>
<td>$-</td>
<td>$15,900,403</td>
</tr>
</tbody>
</table>

Investments as of June 30, 2015, include unrestricted investments of $25,025,683 which are invested separately from those investments for the permanently restricted endowment. Other investment income of $23,926 represents the net investment income on these unrestricted investments.

The change in unrealized gain/(loss) was $(1,008,162) and $1,872,235 in 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the Board approved a 5.50% and 5.75% spending rate, respectively, to its net assets to ensure preservation and growth of the corpus and to provide for a constant stream of income. The spending rate is based on the average net asset balance for the previous three years. If investment income during the year is in excess of the spending rate, the balance is reinvested. If investment income is not sufficient, the balance is provided from previously reinvested amounts. The following schedule summarizes the investment return of the endowment funds and its classification in the statement of activities:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>June 30, 2015 Total</th>
<th>June 30, 2014 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends (net of fees of $68,875 and $65,968, respectively)</td>
<td>$358,544</td>
<td>$-</td>
<td>$358,544</td>
<td>$346,111</td>
</tr>
<tr>
<td>Net realized and unrealized gains</td>
<td>47,148</td>
<td>(394,464)</td>
<td>(347,316)</td>
<td>2,011,439</td>
</tr>
<tr>
<td>Return on long-term investments</td>
<td>405,692</td>
<td>(394,464)</td>
<td>11,228</td>
<td>2,357,550</td>
</tr>
<tr>
<td>Investment return designated for current operations</td>
<td>627,000</td>
<td>174,000</td>
<td>801,000</td>
<td>809,437</td>
</tr>
<tr>
<td>Investment return in excess of amounts designated for current operations</td>
<td>$(221,308)</td>
<td>$(568,464)</td>
<td>$(789,772)</td>
<td>$1,548,113</td>
</tr>
</tbody>
</table>
The Academy utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Academy has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Academy’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the Academy’s assets and liabilities that are carried at fair value as of June 30, 2015 and 2014 are as follows:

<table>
<thead>
<tr>
<th>Investments</th>
<th>2015 Level 1</th>
<th>2015 Level 2</th>
<th>2015 Level 3</th>
<th>2015 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>$ 5,211,886</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 5,211,886</td>
</tr>
<tr>
<td>Common Stocks</td>
<td>19,005,999</td>
<td></td>
<td></td>
<td>19,005,999</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td></td>
<td>81,126</td>
<td></td>
<td>81,126</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>15,612,358</td>
<td></td>
<td></td>
<td>15,612,358</td>
</tr>
<tr>
<td>Pooled Investment Fund/Hedge Fund</td>
<td></td>
<td></td>
<td>239,657</td>
<td>239,657</td>
</tr>
<tr>
<td></td>
<td>$ 39,830,243</td>
<td>$ 81,126</td>
<td>$ 239,657</td>
<td>$ 40,151,026</td>
</tr>
<tr>
<td>Beneficial Interest in Perpetual Trust</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 10,097,617</td>
<td>$ 10,097,617</td>
</tr>
<tr>
<td>Interest Rate Swap Obligation</td>
<td>$ -</td>
<td>$(379,167)</td>
<td>$ -</td>
<td>$(379,167)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investments</th>
<th>2014 Level 1</th>
<th>2014 Level 2</th>
<th>2014 Level 3</th>
<th>2014 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>$ 159,935</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 159,935</td>
</tr>
<tr>
<td>Common Stocks</td>
<td>6,541,283</td>
<td></td>
<td></td>
<td>6,541,283</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td></td>
<td>85,310</td>
<td></td>
<td>85,310</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>9,113,875</td>
<td></td>
<td></td>
<td>9,113,875</td>
</tr>
<tr>
<td></td>
<td>$ 15,815,093</td>
<td>$ 85,310</td>
<td>$ -</td>
<td>$ 15,900,403</td>
</tr>
<tr>
<td>Beneficial Interest in Perpetual Trust</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 9,833,828</td>
<td>$ 9,833,828</td>
</tr>
<tr>
<td>Interest Rate Swap Obligation</td>
<td>$ -</td>
<td>$(160,996)</td>
<td>$ -</td>
<td>$(160,996)</td>
</tr>
</tbody>
</table>
NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2015 And 2014

The Beneficial Interest in Perpetual Trust is measured at the estimated cash flows which involve unobservable inputs. As a result, the present value technique is a Level 3 input.

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2015 or 2014.

The changes in investments measured at fair value for which the Academy used Level 3 inputs to determine fair value are as follows:

<table>
<thead>
<tr>
<th>Investments</th>
<th>Beneficial Interest In Perpetual Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2015</td>
</tr>
<tr>
<td>Balance, July 1</td>
<td>$ -</td>
</tr>
<tr>
<td>Purchases</td>
<td>249,416</td>
</tr>
<tr>
<td>Contribution</td>
<td>-</td>
</tr>
<tr>
<td>Unrealized gains / (losses)</td>
<td>(9,759)</td>
</tr>
<tr>
<td>Balance, June 30</td>
<td>$ 239,657</td>
</tr>
</tbody>
</table>

(5) PROPERTY, BUILDINGS AND EQUIPMENT

A summary of property, buildings and equipment as of June 30 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land, buildings and improvements</td>
<td>$ 60,566,464</td>
<td>$ 59,891,992</td>
</tr>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>3,720,695</td>
<td>2,863,575</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>64,287,159</td>
<td>62,755,567</td>
</tr>
<tr>
<td></td>
<td>(19,728,778)</td>
<td>(18,126,591)</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>44,558,381</td>
<td>44,628,976</td>
</tr>
<tr>
<td></td>
<td>1,486,050</td>
<td>504,041</td>
</tr>
<tr>
<td></td>
<td>$ 46,044,431</td>
<td>$ 45,133,017</td>
</tr>
</tbody>
</table>

Conditional asset retirement obligations ("AROs") that meet the definition of liabilities should be recognized when incurred if their fair value can be reasonably estimated. As of June 30, 2015, the Academy was unable to determine the extent of any remediation AROs that would be required in the future.

(6) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The beneficial interest in perpetual trusts of $10,097,617 and $9,833,828 at June 30, 2015 and 2014, respectively, includes the Academy’s respective share of the fair value of the total funds held in trust by others for which the Academy is the recipient of all or a percentage of the income.

Six beneficiaries who have a beneficial interest in a trust had filed a motion to the Orphan’s Court of Pennsylvania disputing the beneficial interest of the seventh beneficiary. The Court ruled in favor of the six beneficiaries increasing each of the beneficiaries’ beneficial interest to a 1/6 share in the Trust. The increase in the beneficial interest is reflected as a contribution of beneficial interest in perpetual trusts of $647,476 during 2015.
(7) LINE OF CREDIT

On June 1, 2015, the Academy increased its revolving lines of credit from $7,500,000 to $10,000,000 to provide additional bridge financing for capital projects. The lines of credit, $7,500,000 for capital projects and $2,500,000 for working capital, are collateralized by certain marketable securities held by a financial institution. Interest on the line of credit is payable on a monthly basis at a variable percentage based upon the J.P. Morgan Chase Guaranty Prime Rate minus 1.40% (1.85% as of June 30, 2015). Prior to the execution of the lines of credit on June 1, 2015, the interest rate was the J.P. Morgan Chase Guaranty Prime Rate minus 1.25% (2% as of June 30, 2014). Prior to June 27, 2014, the interest rate was 4.00%. At June 30, 2015 and 2014, the outstanding balance on the line of credit was $580,000 and $2,200,000, respectively. Interest expense on the lines of credit was $65,798 and $70,349 for the years ended June 30, 2015 and 2014, respectively.

(8) LONG-TERM DEBT

On June 25, 2015, the Academy borrowed $21,000,000 through the issuance of tax-exempt Revenue Bonds, Series 2015A through the Philadelphia Authority for Industrial Development, the proceeds of which were used to refinance its 2010 Bonds and any obligations owed to PNC Bank, N.A. as letter of credit provider on the 2010 Bonds, a portion of the outstanding credit line with Haverford Trust, and to finance the costs of issuance. The Bryn Mawr Trust Company purchased the Bonds from the Authority.

The tax-exempt Bonds will mature on June 25, 2043, and may be prepaid in whole or in part at any time. The tax exempt interest rates are variable and are adjustable monthly by The Bryn Mawr Trust Company. The floating rate per annum is the sum of LIBOR plus 1.30% multiplied by sixty-seven percent. Interest is paid monthly on the outstanding principal subject to its variable rate which was 0.9960% for the period from issuance, June 25, 2015, to June 30, 2015. Deferred financing expenses in the amount of $218,909 are being amortized on a straight-line basis over the life of the Bonds; the net amount is included under other long term assets.

In connection with the issuance of the 2015 Bonds, the Academy entered into an interest rate swap agreement with the Bryn Mawr Trust Company. The swap agreement requires the Academy to pay a fixed interest rate of 2.62% on a notional balance of $12,600,000 while receiving a variable interest rate equal to the rate paid for the Bond. The purpose of the swap agreement is to hedge against increases in the variable interest rates on the 2015 Bonds. The market value of the swap was $379,167 and $160,996 in favor of the bank as of June 30, 2015 and 2014, respectively, and is included in other liabilities in the statement of financial position.

The Academy must maintain certain financial covenants in accordance with the 2015 Bond agreement:

a. Maintain unencumbered liquidity at least equal to $21,000,000 tested semi-annually
b. Maintain unrestricted net assets at least equal to $28,500,000

Total interest expense on the tax exempt bonds, 2015 and 2010 issues, was $527,520 and $577,982 for the years ended June 30, 2015 and 2014, respectively.

The remaining balance of deferred financing expense of $446,984 associated with issuance of the 2010 Bonds was expensed as a loss on refinancing.

With the refinancing of the 2010 Bonds, the requirement to maintain a Debt Service Reserve Fund with a minimum of $700,000 was released and, accordingly, the funds held by trustee in 2014 are included in cash and cash equivalents as of June 30, 2015.
Redemption payments required under the Bond Agreements are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$ -</td>
</tr>
<tr>
<td>2017</td>
<td>-</td>
</tr>
<tr>
<td>2018</td>
<td>-</td>
</tr>
<tr>
<td>2019</td>
<td>541,000</td>
</tr>
<tr>
<td>2020</td>
<td>606,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>19,853,000</td>
</tr>
<tr>
<td></td>
<td>$ 21,000,000</td>
</tr>
</tbody>
</table>

(9) RETIREMENT PLANS

The Academy has a defined contribution plan covering employees over the age of 21 who work 1,000 hours or more in a calendar year. Under this plan, employees can contribute to the plan immediately, not to exceed the limits imposed by IRC 402(g). Effective after ninety days of employment, the Academy matches up to 4% for each employee contribution. During the years ended June 30, 2015 and 2014, the Academy contributed approximately $179,000 and $171,000, respectively, to the plan.

The Academy also has a defined benefit pension plan covering certain former employees. Benefits under the plan are based on employees’ years of service and compensation. The related assets and liabilities of this plan are not material to the financial statements.

(10) NET ASSETS

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building fund, net of discount</td>
<td>$ 25,000</td>
<td>$ 35,904</td>
</tr>
<tr>
<td>Campus Master Plan – Capital Campaign</td>
<td>1,288,052</td>
<td>580,929</td>
</tr>
<tr>
<td>Major gifts-time restriction</td>
<td>11,500</td>
<td>47,000</td>
</tr>
<tr>
<td>Faculty development</td>
<td>-</td>
<td>25,000</td>
</tr>
<tr>
<td>Scholarships</td>
<td>1,250,000</td>
<td>38,000</td>
</tr>
<tr>
<td>Cumulative gain on endowment</td>
<td>-</td>
<td>568,464</td>
</tr>
<tr>
<td></td>
<td>$ 2,574,552</td>
<td>$ 1,295,297</td>
</tr>
</tbody>
</table>

Permanently restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>$ 4,664,406</td>
<td>$ 4,664,406</td>
</tr>
<tr>
<td>Art acquisitions and conservation</td>
<td>3,349,691</td>
<td>3,349,691</td>
</tr>
<tr>
<td>Museum operations</td>
<td>926,168</td>
<td>926,168</td>
</tr>
<tr>
<td>School scholarships and prizes</td>
<td>5,416,176</td>
<td>5,345,299</td>
</tr>
<tr>
<td>School – other</td>
<td>1,309,978</td>
<td>1,309,978</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trusts</td>
<td>10,097,617</td>
<td>9,833,828</td>
</tr>
<tr>
<td></td>
<td>$ 25,764,036</td>
<td>$ 25,429,370</td>
</tr>
</tbody>
</table>
Net assets were released from donor restrictions by satisfying the restricted purpose, as follows:

Purpose and time restrictions accomplished:

<table>
<thead>
<tr>
<th>Purpose and time restrictions accomplished</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of art</td>
<td>$174,000</td>
<td>177,267</td>
</tr>
<tr>
<td>Building fund</td>
<td>10,338</td>
<td>162,252</td>
</tr>
<tr>
<td>Campus Master Plan – Capital Campaign</td>
<td>2,601,822</td>
<td>1,077,135</td>
</tr>
<tr>
<td>Major gifts-time restriction</td>
<td>37,000</td>
<td>47,500</td>
</tr>
<tr>
<td>Faculty development</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>Scholarships</td>
<td>38,000</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td><strong>$2,886,160</strong></td>
<td><strong>$1,484,154</strong></td>
</tr>
</tbody>
</table>

Endowment net asset composition by type of fund as of June 30, 2015 and 2014:

<table>
<thead>
<tr>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
</tr>
<tr>
<td>Donor restricted endowment funds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
</tr>
<tr>
<td>Donor restricted endowment funds</td>
</tr>
</tbody>
</table>

The Academy classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. Commonwealth of Pennsylvania law stipulates that realized and unrealized gains on endowment assets may be expended for the purposes stipulated by the donors only to the extent that the total of such expenditures, including dividends and interest and less fees, do not exceed 7% of the average of the three most recent fiscal years’ fair values of the permanently restricted endowment assets. Realized and unrealized gains in excess of the annual limitation would be included in the statements of activities as increases in the temporarily restricted net assets. Such temporarily restricted amounts may be released to unrestricted net assets in future years based on authorization by the Academy only to the extent of the 7% limitation applicable to the year in which they are to be released.

As of June 30, 2015, the Academy has not designated any unrestricted net assets to function as an endowment. However, cumulative losses on the permanently restricted endowment of $221,308 as of June 30, 2015, were charged to unrestricted net assets.
# PENNSYLVANIA ACADEMY OF THE FINE ARTS

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### June 30, 2015 And 2014

Changes in endowment net assets for the years ended June 30, 2015 and 2014:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$ -</td>
<td>$ 568,464</td>
<td>$ 25,429,370</td>
<td>$ 25,997,834</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>358,544</td>
<td>-</td>
<td>-</td>
<td>358,544</td>
</tr>
<tr>
<td>Realized and unrealized gains</td>
<td>47,148</td>
<td>(394,464)</td>
<td>-</td>
<td>(347,316)</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>-</td>
<td>70,877</td>
<td>70,877</td>
</tr>
<tr>
<td>Endowment income designated for current operations</td>
<td>(627,000)</td>
<td>(174,000)</td>
<td>-</td>
<td>(801,000)</td>
</tr>
<tr>
<td>Contribution of beneficial interest</td>
<td>-</td>
<td>-</td>
<td>647,476</td>
<td>647,476</td>
</tr>
<tr>
<td>Change in beneficial interest in perpetual trust</td>
<td>-</td>
<td>-</td>
<td>(383,687)</td>
<td>(383,687)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ (221,308)</td>
<td>$ -</td>
<td>$ 25,764,036</td>
<td>$ 25,542,728</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$ (979,649)</td>
<td>$ -</td>
<td>$ 24,412,352</td>
<td>$ 23,432,703</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>346,111</td>
<td>-</td>
<td>-</td>
<td>346,111</td>
</tr>
<tr>
<td>Realized and unrealized gains</td>
<td>1,265,708</td>
<td>745,731</td>
<td>-</td>
<td>2,011,439</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>-</td>
<td>172,188</td>
<td>172,188</td>
</tr>
<tr>
<td>Endowment income designated for current operations</td>
<td>(632,170)</td>
<td>(177,267)</td>
<td>-</td>
<td>(809,437)</td>
</tr>
<tr>
<td>Change in beneficial interest in perpetual trust</td>
<td>-</td>
<td>-</td>
<td>844,830</td>
<td>844,830</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ -</td>
<td>$ 568,464</td>
<td>$ 25,429,370</td>
<td>$ 25,997,834</td>
</tr>
</tbody>
</table>


NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2015 And 2014

(11) RELATED PARTY TRANSACTIONS

The Academy had the following related party transactions:

- The Academy uses the services of a Trust Company where a Board member of the Academy is an officer and three Board members are paid Directors. Assets under management with this investment company totaled approximately $15,830,000 and $38,318,000 as of June 30, 2015 and 2014, respectively. The Academy was charged investment fees by the investment company. The fee was approximately for $69,000 and $66,000 for the years ended June 30, 2015 and 2014, respectively. In addition, this Trust Company provides a line of credit for the Academy; interest expense during the years ended June 30, 2015 and 2014 for this line of credit was approximately $66,000 and $70,000, respectively.

- The Academy has an employment agreement with its President whereby the Academy paid $200,000 during fiscal year 2009 to assist in acquiring a residence. The payment is treated as an asset of the endowment. The Academy has an equity interest in the property. As of June 30, 2015 and 2014, the balance on the loan, including accrued interest, is $154,235 and $168,872, respectively, and is included in other assets in the statement of financial position. Accrued interest income was $5,363 and $6,338 for the years ended June 30, 2015 and 2014, respectively.

- The Academy receives the income from a beneficial trust held by a third party, of which one of the Trustees of that beneficial trust is a Board member of the Academy.

- The Academy has approximately $2,745,000 and $1,940,000 as of June 30, 2015 and 2014, respectively, in pledges for capital campaign and other purposes from several board members and their foundations.

- A Board member of the Academy is President of the financial institution which provided the Academy the 2015 Bond debt.

(12) COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Academy leases certain office equipment and student housing apartments under lease agreements which expire at various dates through fiscal year 2019.

Future minimum rental payments required under these non-cancellable operating leases are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$275,452</td>
</tr>
<tr>
<td>2017</td>
<td>63,446</td>
</tr>
<tr>
<td>2018</td>
<td>9,984</td>
</tr>
<tr>
<td>2019</td>
<td>832</td>
</tr>
<tr>
<td>Total</td>
<td>$349,714</td>
</tr>
</tbody>
</table>


LITIGATION
The Academy is involved in certain litigation arising out of the conduct of its business. In the opinion of management and legal counsel, the resolution of such matters will not have a material adverse effect on the Academy’s financial position.

GRANTS
Financial assistance from the federal and state governments in the form of grants and student aid/loans are subject to audit by the granting entity. An audit could result in claims for disallowed costs or noncompliance with regulations. In the opinion of management, any such liability, if any, will not have a material adverse effect on the Academy’s financial position.

(13) SUBSEQUENT EVENTS
Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, October 8, 2015 have been evaluated in the preparation of the financial statements and management has determined that there are no subsequent events that would require disclosure or adjustment in the financial statements.