PENNSYLVANIA ACADEMY OF THE FINE ARTS

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2015

PENNSYLVANIA ACADEMY OF THE FINE ARTS

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CERTIFIED PUBLIC ACCOUNTANTS

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.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
October 8, 2015

PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 And 2014

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

	2015	2014
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

PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2015 With Summarized Information For 2014

	2015			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
Program Revenues, Support Revenue and Investment Income					
Program Revenue					
Tuition and fees, net of scholarships	$ 5,882,258	$ -	$ -	$ 5,882,258	$ 6,633,865
Continuing and public education	833,064	-	-	833,064	847,082
Government grants	173,474	-	-	173,474	90,973
Museum admissions, collection rental and fees	403,887	-	-	403,887	255,944
Museum shop and art supply store, net	175,191	-	-	175,191	25,399
Facility rental and catering	290,820	-	-	290,820	384,861
Women's Board	296,002	-	-	296,002	297,359
Other income	245,585	-	-	245,585	33,049
Total program revenue	8,300,281	-	-	8,300,281	8,568,532
Support Revenue					
Fundraising and support revenues	4,146,316	4,559,879	70,877	8,777,072	5,741,582
Bequests	1,478,097	-	-	1,478,097	247,483
Total support revenue	5,624,413	4,559,879	70,877	10,255,169	5,989,065
Investment Income					
Endowment income designated for operations ***(Note 4)***	627,000	174,000	-	801,000	809,437
Income from outside trusts	755,385	-	-	755,385	424,872
Total investment income	1,382,385	174,000	-	1,556,385	1,234,309
Net assets released from restrictions *(Note 10)*	2,886,160	(2,886,160)	-	-	-
Total operating program, support and investment income	18,193,239	1,847,719	70,877	20,111,835	15,791,906
Program and Support Expenses					
Program Expenses					
School	7,375,424	-	-	7,375,424	7,224,038
Continuing and public education	1,126,635	-	-	1,126,635	1,026,365
Women's Board	76,007	-	-	76,007	102,089
Museum and exhibition	3,253,032	-	-	3,253,032	2,929,051
Total program expenses	11,831,098	-	-	11,831,098	11,281,543
Support Function Expenses					
Management and general	1,583,024	-	-	1,583,024	1,746,962
Facility rental and catering	160,198	-	-	160,198	199,612
Development and fundraising	1,452,603	-	-	1,452,603	1,301,420
	3,195,825	-	-	3,195,825	3,247,994
Total program and support expenses	15,026,923	-	-	15,026,923	14,529,537
Change in net assets before depreciation, gains (losses) and other income (expenses)	3,166,316	1,847,719	70,877	5,084,912	1,262,369
Depreciation and amortization	1,602,187	-	-	1,602,187	1,664,901
Change in net assets before gains (losses) and other income (expenses)	1,564,129	1,847,719	70,877	3,482,725	(402,532)

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

	2015			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
Gains (Losses) and Other Income (Expenses)					
Investment return in excess (deficit) of amount designated for current operations ***(Notes 4 and 10)***	(221,308)	(568,464)	-	(789,772)	1,548,113
Other investment income ***(Note 4)***	23,926	-	-	23,926	-
Contribution of beneficial interest in perpetual trusts ***(Notes 4, 6 and 10)***	-	-	647,476	647,476	-
Change in beneficial interest in perpetual trusts ***(Notes 4 and 10)***	-	-	(383,687)	(383,687)	844,831
Change in market value of interest rate swap ***(Note 8)***	(218,171)	-	-	(218,171)	166,652
Loss on financing ***(Note 8)***	(446,984)	-	-	(446,984)	-
Proceeds from art sales	-	-	-	-	30,700,000
Collection items purchased but not capitalized	(2,562,646)	-	-	(2,562,646)	(546,412)
Total non-operating revenue, expenses and gain (losses)	(3,425,183)	(568,464)	263,789	(3,729,858)	32,713,184
Change in net assets	(1,861,054)	1,279,255	334,666	(247,133)	32,310,652
Net Assets					
Beginning of year	57,116,793	1,295,297	25,429,370	83,841,460	51,530,808
End of year	$ 55,255,739	$ 2,574,552	$ 25,764,036	$ 83,594,327	$ 83,841,460

PENNSYLVANIA ACADEMY OF THE FINE ARTS

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 And 2014

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

(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:

Buildings	10 – 40 years
Building improvement	10 – 20 years
Equipment, furniture and fixtures	3 – 5 years

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.

(3) PLEDGES RECEIVABLE

Current pledges receivable consist of the following at June 30:

	2015	2014
Capital Campaign pledges receivable	$ 3,010,487	$ 1,805,003
Major Gifts pledges receivable	1,829,743	396,388
Total Pledges Receivable	$ 4,840,230	$ 2,201,391

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

	2015	2014
Pledges receivable Capital Campaign:		
Past due and due within a year	$ 1,742,528	$ 1,016,570
Due between one and five years	1,434,000	955,000
Pledges receivable, gross	3,176,528	1,971,570
Less allowance for uncollectibles and discount	(166,041)	(166,567)
Pledges receivable Capital Campaign, net	$ 3,010,487	$ 1,805,003
Pledges receivable Major Gifts:		
Due within a year	$ 982,690	$ 334,250
Due between one and three years	925,000	63,000
Pledges receivable, gross	1,907,690	397,250
Less allowance for uncollectibles and discount	(77,947)	(862)
Pledges receivable Major Gifts, net	$ 1,829,743	$ 396,388

(4) INVESTMENTS

Investments consist of the following at June 30:

	2015			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Money Market Funds	$ 5,211,886	$ -	$ -	$ 5,211,886
Common Stocks	17,200,151	1,805,848	-	19,005,999
Corporate Bonds	76,298	4,828	-	81,126
Mutual Funds	15,048,439	563,919	-	15,612,358
Pooled Investment Fund/Hedge Fund	249,416	-	(9,759)	239,657
	$ 37,786,190	$ 2,374,595	$ (9,759)	$ 40,151,026

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

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:

	Unrestricted	**Temporarily Restricted**	**June 30, 2015 Total**	**June 30, 2014 Total**
Interest and dividends (net of fees of $68,875 and $65,968, respectively)	$ 358,544	$ -	$ 358,544	$ 346,111
Net realized and unrealized gains	47,148	(394,464)	(347,316)	2,011,439
Return on long-term investments	405,692	(394,464)	11,228	2,357,550
Investment return designated for current operations	627,000	174,000	801,000	809,437
Investment return in excess of amounts designated for current operations	$ (221,308)	$ (568,464)	$ (789,772)	$ 1,548,113

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:

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

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Money Market Funds	$ 159,935	$ -	$ -	$ 159,935
Common Stocks	6,541,283	-	-	6,541,283
Corporate Bonds	-	85,310	-	85,310
Mutual Funds	9,113,875	-	-	9,113,875
	$ 15,815,093	$ 85,310	$ -	$ 15,900,403
Beneficial Interest in Perpetual Trust	$ -	$ -	$ 9,833,828	$ 9,833,828
Interest Rate Swap Obligation	$ -	$ (160,996)	$ -	$ (160,996)

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:

	Investments	Beneficial Interest In Perpetual Trust	
	2015	2015	2014
Balance, July 1	$ -	$ 9,833,828	$ 8,988,997
Purchases	249,416	-	-
Contribution	-	647,476	-
Unrealized gains / (losses)	(9,759)	(383,687)	844,831
Balance, June 30	$ 239,657	$ 10,097,617	$ 9,833,828

(5) PROPERTY, BUILDINGS AND EQUIPMENT

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

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

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:

Year Ending June 30,	Amount
2016	$ -
2017	-
2018	-
2019	541,000
2020	606,000
Thereafter	19,853,000
	$ 21,000,000

(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:

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

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

	2015	2014
Operations	$ 4,664,406	$ 4,664,406
Art acquisitions and conservation	3,349,691	3,349,691
Museum operations	926,168	926,168
School scholarships and prizes	5,416,176	5,345,299
School – other	1,309,978	1,309,978
Beneficial interest in perpetual trusts	10,097,617	9,833,828
	$ 25,764,036	$ 25,429,370

Net assets were released from donor restrictions by satisfying the restricted purpose, as follows:

Purpose and time restrictions accomplished:

	2015	2014
Acquisition of art	$ 174,000	177,267
Building fund	10,338	162,252
Campus Master Plan – Capital Campaign	2,601,822	1,077,135
Major gifts-time restriction	37,000	47,500
Faculty development	25,000	-
Scholarships	38,000	20,000
	$ 2,886,160	$ 1,484,154

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (221,308)	$ -	$ 25,764,036	$ 25,542,728

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 568,464	$ 25,429,370	$ 25,997,834

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.

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

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

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

(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:

2016	$ 275,452
2017	63,446
2018	9,984
2019	832
Total	$ 349,714

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.