

PACIFIC ART LEAGUE



Enlightened One | Chun-hui Yu, Artist / PAL Instructor

ANNUAL REPORT 2014-15

MESSAGE FROM SHANNON McDONNELL
EXECUTIVE DIRECTOR



“Great things are done by a series of small things brought together.” Vincent Van Gogh

It was a year of a lot of small things that came together to create a better PAL. My predecessor, Andrea Temkin, did a wonderful job of bringing about long-needed improvements to PAL. We now have a new CRM system and a gorgeous new website. We have streamlined policies and procedures that clearly show Board function and staff roles. These accomplishments were overdue. Yet, as I look back at this last year at PAL, I wonder how many of these small things, if done by themselves, would have made a deep impact.

All of these improvements are important. They constitute a leaner, more efficient way of doing business, but they are not what make us transform to greatness. That transformation comes when we work together to achieve what singularly, we cannot. As a group of dedicated, enthusiastic and passionate individuals, we come together to form this PAL.

Think about it: by our very name, we suggest group accomplishment and friendship. We are not Pacific Art Person, or Pacific Art Couple. We are a League of artists, for artists, about artists. How fortunate we are, in this lovely space, to live; work and enjoy art.

We have put a lot of time and thought into “cleaning our house”. We have settled back into this beautiful building where we are surrounded by color and light. I see the pride and happiness in the faces of our students, instructors, board and staff. I see the curiosity and wonder in the passersby and those who feel compelled to pop their heads in and “just take a quick peek.”

Moving forward, let’s work toward bringing others into our League. Invite a friend to an Art and Wine Night, or to a First Friday evening. If we are to grow and share this “greatness of small things,” we owe it to ourselves and to our PAL to open our doors and minds to the future.

Our only limit is our imagination.

A handwritten signature in black ink that reads "Shannon McDonnell". The script is fluid and cursive.

Shannon McDonnell

LETTER FROM THEO KEET
BOARD PRESIDENT



Dear Members and Friends of the Pacific Art League,

After the tremendous effort in the last several years to retrofit and expand the historical property of PAL and to secure the necessary financial support, we are now in the early stage of expanding our presence in the local and regional communities.

We have passed through a tumultuous period with many changes in staff as well as board members. But I am pleased to observe that the cohesiveness and morale of staff as well as the board has improved. All those involved with the daily activities at PAL, including the valuable and indispensable instructors, are focusing on a common goal. All of them are demonstrating a tremendous passion and dedication to PAL.

Under the great dedication and expertise of our new executive director, Shannon McDonnell, I'm confident that we can stay on track of our new strategic plan. By the time of our centennial year, 2021, we are looking forward to being a well-established and highly respected organization in our community, providing art education, displaying high-quality art and providing opportunity to emerging and new talents.

I look forward to your continuing support.

A handwritten signature in black ink, appearing to read 'Theo Keet'. The signature is stylized with a large initial 'T' and a long, sweeping underline.

Theo Keet, President

BOARD & STAFF*



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Sondra Murphy
Brad Maihack

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Robin Welles

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Shannon McDonnell, Executive Director
Nikitha Shetty
Anna Speaker
Maricar Apuya
Brian 'Sal' Corral

* as of fiscal year end

COMMITTEES

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Sondra Murphy
Joy Chase
Kathryne Culpepper
Denise Marcus
Nancy Wong

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Caroline Mustard

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Suzanne Carey
Mariko Matsumoto
Theo Keet

NOMINATING COMMITTEE

Josephine Shuster
Robin Scholl
Glen Rojas
Theo Keet
Robin Welles

OPERATING COMMITTEE

Mariko Matsumoto
Joy Chase
Theo Keet

EXHIBITIONS 2014-15

AUGUST Studio one- BayCentric (new theme), Main Gallery- prints on loan from Smith Andersen Editions, featuring works by renown printmakers including Stanley Boxer, Joseph Zirker, Enrique Chagoya, David Gilhooly, Frank Lobdell, Gustavo Rivera, and many others, spanning from the second half of the 20th century to the present.

SEPTEMBER Grand Opening - nearly 200 works of art on display created by PAL supporters in celebration of the re-opening of our historic building

OCTOBER Landscapes, Seascapes & Urbanscapes- highest number of juried show entries to date

NOVEMBER Science, Technology and the Future of Art- New theme featuring video art, digitally created works including 3D printing, CNC carving and mobile art, as well as multimedia installation.

DECEMBER First annual Small Work Raffle and Holiday Celebration, as well as Winter Wonder juried exhibit

JANUARY Members' Exhibit

FEBRUARY Abstractions

MARCH Fur, Feathers and Fins. Artists individually elected to donate a portion of sales to the Peninsula Humane Society, raising more than \$900

APRIL Spring is in the Air

MAY SVOS preview exhibit and PAL instructors

JUNE Pressed, a printmaking exhibition and Pablove Shutterbugs Exhibit in the Corridor gallery.

JULY Members' Exhibit

FY'15 saw a 10% increase in revenue from submissions, a whopping 98% increase in revenue from art sale commissions, and a 33% increase in overall exhibition revenue.



shannon dinapoli
photography

ART PROGRAMS

EDUCATION At PAL this past year we have continued to adjust to the challenge of sharing space for Exhibition and Education. Classes are taught in both of our galleries, so art is created while being surrounded by art! It is, indeed, both a challenge and a perfect environment for learning at the same time!

Our team of highly-qualified instructors include several veteran PAL Instructors of 25 years as well as several newly-acquired instructors.

Our Education program is the primary source of income for the Pacific Art League. We have experienced an increase in classes of over 30% this past fiscal year with over twenty new classes and workshops offered. We also have had twelve new Instructors teaching at PAL over the past year.

The Pacific Art League also launched several new Art Education programs, including holiday workshops, Friday Nights at PAL, Critique Nights with guest instructors, and youth time slots for middle school aged young artists.

Our Summer Camps for children ran two more camps than last year with five new camps and three new instructors.

EXHIBITION Our Exhibition Program grew at a rapid pace this past fiscal year. As we continued to adjust to our beautiful new surroundings, our gallery spaces were continuously covered with quality artwork which provided both motivation for students and artists as well as increased overall revenue. A highlight of the year was the Grand Opening Show in September to celebrate our moving back into our newly renovated building. We had nearly 200 pieces of artwork on display for this exhibit.

We had a total of 1,745 Art pieces submitted with total fees at \$42,186. This represents a 10% increase in revenue from submissions and a 98% increase in revenue from art sales commissions. All in all, we had a 33% increase in overall exhibition revenue.

We established a Corridor Gallery to increase exposure to diversified art styles, and it is always reserved months in advance, being a very popular exhibition venue.

Robin Scholl
Art Programs Committee Chair

COMMUNITY ENGAGEMENT

Fiscal year 2015 saw PAL take on the mission to engage with our wider community and leverage the passion of our members, students and supporters to do great work. In December of 2014, we held an art supply drive for the Redwood City Police Activities League's first after school art program. This organization provides intervention, prevention, and alternative programs to at-risk and economically challenged youth in Redwood City. We must say a big thank you to everyone who donated art supplies to this drive- what a difference we made! We hope you will all participate again this year when those big red boxes reappear! We continued our involvement with the Redwood City Police Activities League with a pilot 3-week iPad art class which culminated in a fantastic Family Art Night. This class was funded by the Redwood City Civic Cultural Commission, and paved the way for the launch of our school-year iPad art classes, both at the Redwood City Police Activities League and the Boys and Girls Clubs of the Peninsula's East Palo Alto Clubhouse. In this next year, we will be teaching around 180 children and teens how to create amazing works of digital art! As we look to the year ahead, we are forging partnerships with the Boys and Girls Club of East Palo Alto. We are also looking at new partnerships with several community service organizations in Palo Alto, Redwood City and Menlo Park.



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FUNDRAISING EFFORTS

It's exciting to be part of a Board and Membership community that is dedicated to taking the bold steps necessary to ensure PAL builds and maintains a strong, sustainable core operating model while also seeking to attract the incremental financial resources it believes necessary to engage an even broader range of the community. Development is all about two things: "Friend-raising" as well as "Fundraising", and the Development Committee has put in place a clear map on how we navigate and monitor our progress towards success in both of these areas. During the year, we've brought on a new PAL Advisory Board, we've formed new partnerships with the Palo Alto Medical Foundation and the City of Menlo Park, we've reignited our grant writing/application engine, we've hired a strong new Executive Director to help drive and refresh our marketing and community program focus as has been true in prior years, we've also seen many generous donations being made by our Members, Board, and Community in support of our already strong core programs and events. As we get into our 2015-2016 fiscal year, we'll continue to see our friend and fundraising momentum build as we rollout a host of new and exciting programs and opportunities for our members and community to more fully engage in the expression, appreciation, and enjoyment of art.



FUNDERS & CORPORATE SPONSORS

California Arts Council	\$9,500
The Redwood City Civic Cultural Commission	\$2,500
Silicon Valley Creates	\$10,350
Silicon Valley Creates: 2014 Next Generation	\$2,500
Kilpatrick Townsend	\$17,593*
Wilson, Sonsini, Goodrich & Rosati	\$5,225*
*In-kind	

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SPECIAL EVENTS

On September 13, 2014 we had a Grand Opening Brunch, ribbon-cutting ceremony and open house. We moved back to our historic building, now safely built, expanded and renovated, in May of 2014. The Events Committee planned and produced the Brunch in the morning to which donors, PAL contributors and community leaders were invited. Speakers included Bill Bruner (PAL architect), David Popelka (representing Oliver & Co developer and builders), Liz Kniss (Palo Alto City Council) and Anna Eshoo (U.S. Congresswoman). An Open House was held in the afternoon for the public at which instructors demonstrated their art. About 185 artists contributed \$100 each to show their best pieces in the galleries for the Grand Opening Exhibition for the month of September.



VOLUNTEERS

Total Numbers of Volunteers: 65
Summer camp volunteers: 11
Total number of events: 12 exhibitions + events
Total number of hours put in by volunteers: 913
Summer Camps: 144
Art Hanging: 180
Postcard and catalog Distribution: 199
Art Intake: 150
Events: 170
Front desk and administrative: 70

Volunteer Recruitment -Word of mouth -Eblasts
requesting members to volunteer

VOLUNTEERS LIST

Cole Packman
Daniel Wang
Samhita Tara
Janet Wang
Larry Li
Riley Thomson
Kyle Chen
Kaitlyn Kloe
Kenneth Chun
Shannon Gibson Dinapoli
Deana Wong
Kirsi Engles
Mary Ladner
Min Kim
Diana Madso
Maia McCarthy
Emily Linkin
Karen Olsen
Candace Soules
Helen Ju
Pooja Sharma
Lauma Zunte
Natasha Shinkova
Switi Takkar
Evonne Kw
Anahita Thornycroft
Namrita Bimbra
Ana Costa
Louise Gibler
Cherryl Pape
Deborah Mauffer



Breanne Carissa Tojo
Lourdes Morante de Mieses
Anchal Chandra
Bhavana Reddy
Claudia Schafer Tabraue
Helen Ju
Subhi Lakshmanan
Kim Volkman
Matteo Leva
Tara Chafey
Audrey Fu
Stella Adt
Lauma Zunte
Sweta Praveen Kumar
Lilani Latifunisa
Jeremy Platt
Vivian Nguyen
Yeon Seung Koo
Neha Baijal
Helen Bailey
Helen Athey
Stacy Connaway
Robin Welles
Kay Culpepper
Mariko Matsumoto
Maria Walters
Sondra Murphy
Joy Chase
Robin Scholl
Bard Maihack
Jared Sines
John Von Dedenroth

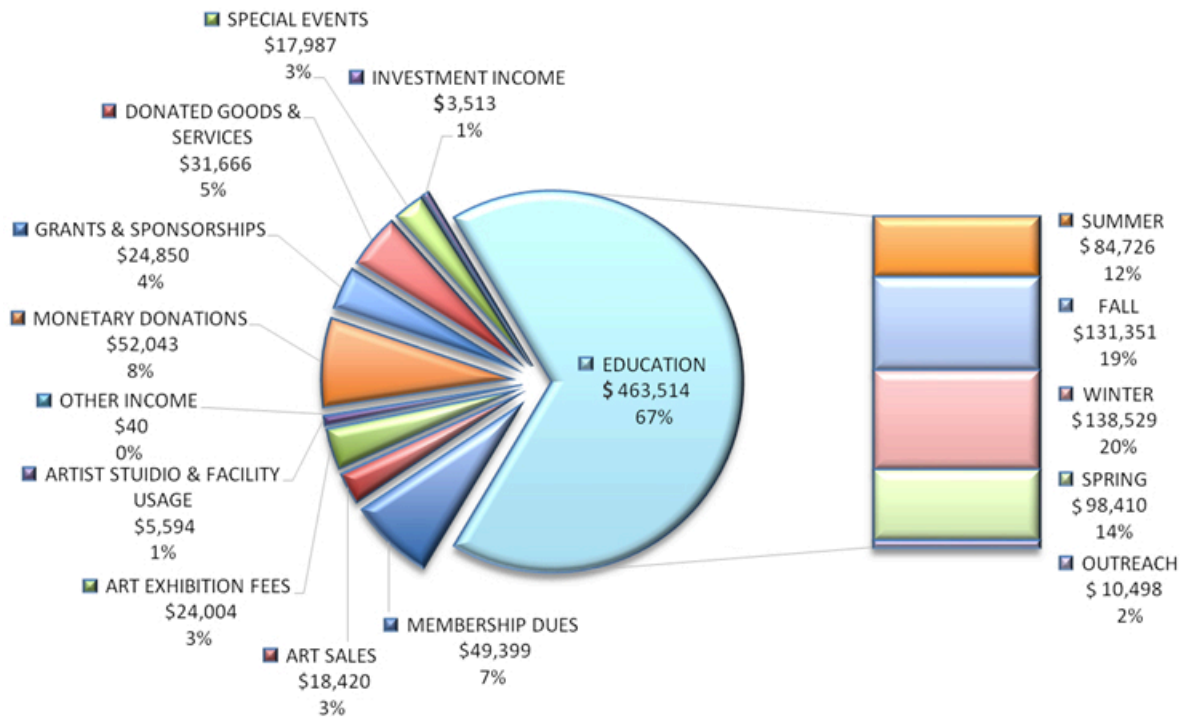
DONORS

Milo Abadilla
Kaleen Abel
Linda Alessi
Ron Andrews
Robin Apple
Neva Appleton
Maricar Apuya
Helen Athey
Camile Ball
Gary Bergman
Tessa Berney
Nancy Berry
Bruner Bill
Jennifer Blalack
Zdenka Bleile
Sylvie Bonnet
David Braunstein
Kenneth Brenner
Yvonne Brock
Kelly Bronfman
Victoria Burke
James Cabral
Jim Caldwell
Marie Cameron
Susan Carnahan
Maura Carta-Greenlaw
Ariana Carughi
Hannah Chandler
Joy Chase
Richard Colbeth
Carolyn Lee Compton
Stacy Connaway
Jil Coolidge
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Nancie Lou Crowley
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Diana Diamond
Marina Druz
Paul C. Edwards
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Irina Evangelidy
Danielle Fafchamps
Richard Feldman
Nica Ferguson
Judith Gaulke
Marianne Gerson

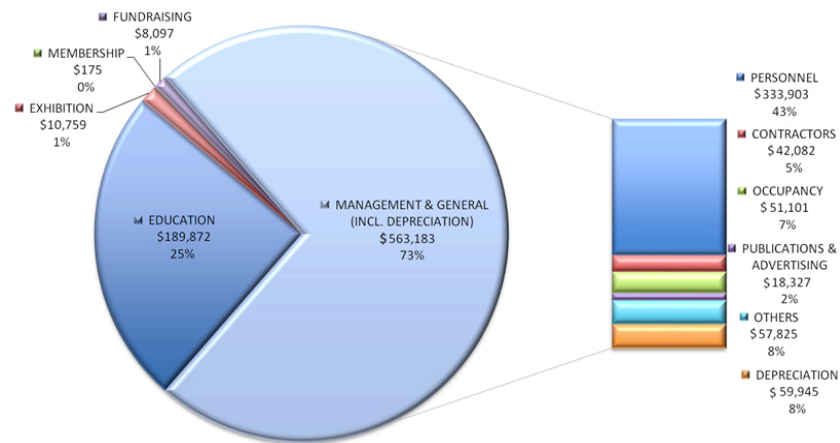
Nicole Golko
Laurie Gould
Barbara Grote
Katie Gutierrez
Sterling Haidt
Barbara Harrington
Reagan Harwood
John Haynes
Morgan Healis
Bernice Jahnke
Patricia Jones
Linda Jordan
Deepali Kapatkar
Mary Karlton
Martin Katz
Theo Keet
Helen Kennedy
Judith Keyani
Olana Khan
Rashida Khan
Jo Killen
Townsend Kilpatrick
Kurt Konolige
Stephanie Koran
Judith Kramer
Fred Krefetz
Ching Yu Ku
Chai Lo Lai
Marjorie Law
Guang Hua Liang
Judy Lin
James Gilbert Little
Dara Lorenzo
Rose-Angela Losche
Chris Luczkiewicz
Michael D. & Saundra L. MacGregor
Brad Maihack
Rosa Mass
Carol Matre
Mariko Matsumoto
Deborah Maufer
Shannon McEntee
Susan Miklos
Lucia Miracchi
Mark Monsarrat
Andrew Morrison
Kim Munson
Sondra Murphy
Josh Oliver
Patricia Osborne
Anthony Paloma
Cherryl Pape
Marian Parr
Virginia Pavlina
Susan Payne-Trutna

Xavier Phelp
Jeremy Platt
Deborah Plumley
Darwin Poulos
Amy Rattner
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Geraldine Ann Russell
Mona Safai
Isaias Sandoval
Thanmay Sarath
Jeffrey Scheel
Robin Scholl
Rick & Lauren Schwartz
Laurie Shelton
Donna Sheridan
Josephine Shuster
Ilene Silver
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Meryl Urdang
Rudi Verhoeven
Babette Villasenor
Sumit Vishwakarma
Melissa Von Bunau
Lea Von Kaenel
Robin Welles
Luci Wilkins
Nancy Wong
Heayoon Woo
Dan Woodard
Douglas Woodman
Chan Yun
Cathy Zander
Stella S. Zhang

PUBLIC SUPPORT & REVENUES



OPERATING EXPENSES



PACIFIC ART LEAGUE OF PALO ALTO
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JULY 31, 2015 AND 2014

CONTENT

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Orlene Chartain
Certified Public Accountant
491 Seaport Court, Suite 101
Redwood City, CA 94063

Board of Directors

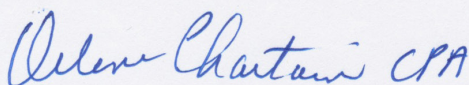
Pacific Art League of Palo Alto

We have audited the accompanying statement of financial position of Pacific Art League of Palo Alto (a not-for-profit corporation) as of July 31, 2015, and the related statements of activities and cash flows and the accompanying notes to the financial statements for the year then ended. These financial statements are the responsibility of the management of Pacific Art League of Palo Alto. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Pacific Art League of Palo Alto as of, and for the year ended July 31, 2014. Our report, in so far as it related to the amounts included for Pacific Art League of Palo Alto as of July 31, 2014 was based solely on the report of management.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Pacific Art League of Palo Alto as of July 31, 2015 and the statements of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statement of Pacific Art League of Palo Alto, taken as a whole. In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2015 on our consideration of Pacific Art League of Palo Alto's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contract and grants. That report and the accompanying notes to the financial statements are an integral part of the audit and should be read in conjunction with this report in considering the results of our audit.



September 17, 2015

STATEMENT OF FINANCIAL POSITION AS OF JULY 31st

	2015 <u>(Audited)</u>	2014 <u>(Unaudited)</u>
Assets		
Cash and cash equivalents, including marketable securities	\$509,658	\$486,951
Accounts Receivable	17,935	8,528
Prepaide Expenses	5,537	6,498
Art Inventory	7,000	
Security Deposits		75,075
Fixed Assets, Net of Accumulated Depreciation	5,837,744	6,125,873
Total Assets	<u>\$6,377,874</u>	<u>\$6,702,925</u>
Liabilities		
Accounts Payable and Accrued Expenses	129,247	48,077
Deferred Income	32,761	50,996
Lease Deposit	89,466	112,928
Deferred Tenant Improvements		312,600
Bank Loan	5,596,785	5,257,980
Construction Loan		450,611
Total Liabilities	<u>\$5,848,259</u>	<u>\$6,233,192</u>
Net Assets		
Unrestricted	515,485	429,725
Temporarily Restricted	14,130	40,008
Total Net Assets	<u>\$529,615</u>	<u>\$469,733</u>
Total Liabilities and Net Assets	<u>\$6,377,874</u>	<u>\$6,702,925</u>

The accompanying notes are an integral part of these statements

STATEMENT OF ACTIVITIES

	YEAR ENDED	
	2015 - July 31st (Audited)	2014 - July 31st (Unaudited)
INCOME		
Program and Service Revenue		
Art Class & Workshop Fees	\$463,514	\$341,733
Membership Dues	49,399	36,764
Art Sales Proceeds	18,420	9,326
Art Exhibition Fees	24,004	19,915
Artist Studio & Facility Usage Fees	5,594	6,595
Other Income	40	2,225
Total Program Service Revenue	\$560,971	\$416,559
Public Support		
Monetary donations, of which \$500 and \$29,266 temporarily restricted	52,043	54,680
Grants/Sponsorship, of which \$13,630 and \$10,742 temporarily restricted and \$14,504 and \$5,542 transferred from prior year	24,850	6,650
Donated goods and services	31,666	20,131
Special event	17,987	16,385
Total Public Support	\$126,546	\$97,845
Investment Income	3,513	24,989
TOTAL INCOME	\$691,030	\$539,393
EXPENSES		
Program Services		
Education	189,872	178,279
Exhibition	10,759	6,450
Membership	175	3,339
Total Program Services	\$200,806	\$188,068
Supporting Services		
Management and general	503,238	384,465
Fundraising	8,097	2,795
Depreciation	59,945	
Total Supporting Services	\$571,280	\$387,259
TOTAL EXPENSES	\$772,086	\$575,328
Temporary rental income net of lease and commission expenses	\$141,216	\$(291,809)
Excess of income over (under) expenses	\$59,882	\$(327,743)
Net assets, beginning of the year	\$469,733	\$797,476
Net Assets, end of the year	\$529,615	\$469,733

The accompanying notes are an integral part of these statements

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STATEMENT OF CASH FLOW

	YEAR ENDED	
	2015 - July 31st (Audited)	2014 - July 31st (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$59,882	\$(327,743)
Non-cash expenses (income), mainly depreciation	160,199	(53,200)
Changes in operating assets and liabilities:	448,415	93,630
Net cash provided by (used in) operating activities	\$668,496	\$(287,313)
CASH USED FOR INVESTING ACTIVITIES AND LOAN PAYMENT		
Fixed assets acquisition	(191,670)	(5,358,943)
Mortgage payments including early payment of \$400,000	(553,234)	
Received (paid) lease deposit, net	(98,537)	113,978
	\$(843,441)	\$(5,244,965)
CASH PROVIDED BY FINANCING ACTIVITIES		
Proceeds from loan to mortgage conversion and construction loans	441,428	5,128,234
Deferred Tenant Improvements payments (reversal)	(243,776)	312,600
	\$197,652	\$5,440,834

The accompanying notes are an integral part of these statements

NOTES TO FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015 AND 2014

1. OPERATIONS AND NONPROFIT STATUS

Pacific Art League of Palo Alto (PAL) was founded in 1921 with a mission to provide an environment for advancing the expression, appreciation and enjoyment of the visual arts through art-focused education classes, workshops, exhibitions and events that are open to the community and members.

PAL is exempt from Federal and State income taxes as an organization formed for charitable purposes under Section 501(c) (3) of the Internal Revenue Code. Donors may deduct contributions made to PAL within the Internal Revenue Code regulations.

2. SIGNIFICANT ACCOUNTING POLICIES

PAL prepares its financial statements in accordance with general accepted accounting standards and principles established by the Financial Accounting Standard Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standard Codification.

Revenue Recognition

Contracts are recorded over the contract period as services are provided. Unrestricted grants and donations are recorded as revenue when received or unconditionally pledged.

PAL reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Restricted grants and donations are recorded as temporarily restricted cash and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions of program restrictions lapse. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program revenue and all other revenue are recognized when earned. Payments received or made in advance of services being performed are recorded either as deferred revenue or prepaid expenses.

NOTES TO FINANCIAL STATEMENTS

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property, equipment and services are recorded at fair market value at the time of the donation. Renewals and betterments are capitalized, while repairs and maintenance are expenses as they are incurred. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Estimated Useful lives</u>
Building	40 years
Office and artistic equipment	3 – 5 years
Furniture and fixtures	5 years

Donated Goods and Services

PAL reports tangible gifts (such as equipment) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. PAL receives services of professional volunteers and donated goods and services in various aspects of its programs and operations. The value assigned to these services and items, based on the donor's estimate of fair value, has been reflected in the accompanying financial statements as donated goods and services.

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by PAL. PAL has grouped its unrestricted net assets as funds available to carry on the operations of PAL.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. FIXED ASSETS

The details of the fixed assets accounts are as follows:

	As of July 31	
	2015	2014
Land	\$32,683	\$32,683
Construction	5,854,587	5,665,178
Furniture & Fixtures	99,067	96,897
Tenants Improvements	68,224	366,052
	<u>\$6,054,561</u>	<u>\$6,160,810</u>
Accumulated Depreciation	\$(216,817)	\$34,937
Net Fixed Assets	<u>\$5,837,744</u>	<u>\$6,125,873</u>

4. MANAGEMENT AND GENERAL EXPENSES

Management and general expenses can be detailed as follows:

	2015 (Audited)	2014 (Unaudited)
Personnel	\$333,903	\$259,618
Contractors	42,082	33,968
Occupancy	51,101	42,035
Publication/Advertising and marketing	18,327	24,815
Others	57,825	24,029
	<u>\$503,238</u>	<u>\$384,465</u>

5. TEMPORARY SUBLEASING

During the years 2013 and 2014 a major retrofit for earthquake protection and an expansion of the building was carried out. The construction was substantially funded with short-term loans from a local bank and the construction company. On August 22, 2014, the various short-term loans were converted to an 8-year mortgage with monthly payments of \$34,010 and a final payment of \$4,298,000 on August 7, 2022. The final payment was reduced from the original balance due to the additional early payment of \$400,000 in October 2014. A conditional option is in place to extend the mortgage with an additional five years, if the lease is also extended.

As part of the building upgrade and retrofitting, the authorities have permitted to extend the overall floor space. In order to secure the necessary financing for the retrofitting and expansion, PAL was required to lease a part of the building, meeting the bank's requirement to have a rental income for the coming eight years equal to at least 130% of the finance payments. The lease has been effective as of May 2014 and will cover an initial period of eight years after which an optional extension of two periods of 5 years exist.

Temporary rental income net of lease and commission expenses are detailed as follows:

	2015	2014
	(Audited)	(Unaudited)
Rental income from temporary sublease	\$561,713	\$124,098
Rental income (expense) from vacated (used) temporary rental space	18,162	(142,526)
Brokerage commission and other expenses	111,197	254,400
Mortgage interest	220,894	18,981
Depreciation related to subleased property	106,568	
	<u>\$141,216</u>	<u>\$(291,809)</u>

6. SUBSEQUENT EVENTS

As of September 17th, 2015, no events have taken place that could impact the financial statements as of July 31st, 2015.

Management has evaluated all material events occurring subsequent to the date of the financial statements up to the date and time the Report of the Independent Audit of these financial statements were issued.