



**AMERICAN ACADEMY  
OF ARTS & SCIENCES**

**AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015**

**AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE**

Contents  
June 30, 2015

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Independent Auditor's Report

To the Board of Directors and Audit Committee of  
American Academy of Arts and Sciences and Affiliate:

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of American Academy of Arts and Sciences (a Massachusetts corporation, not for profit) and Affiliate (a Massachusetts corporation), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the fifteen months ended June 30, 2015, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Academy of Arts and Sciences and Affiliate as of June 30, 2015, and the changes in their net assets and their cash flows for the fifteen months then ended, in accordance with accounting principles generally accepted in the United States of America.

*Alexander, Brown, Fenning & Co., P.C.*

Boston, Massachusetts  
October 29, 2015

**AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE**

Consolidated Statement of Financial Position  
June 30, 2015

<b>Assets</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Current Assets:				
Cash	\$ 122,200	\$ -	\$ -	\$ 122,200
Investments	2,332,971	8,013,845	-	10,346,816
Accounts receivable and other current assets	255,652	-	-	255,652
Current portion of grants and pledges receivable	-	935,534	-	935,534
Total current assets	2,710,823	8,949,379	-	11,660,202
Grants and Pledges Receivable, net of current portion	-	1,081,602	5,028,000	6,109,602
Investments	10,592,941	5,119,256	27,575,286	43,287,483
Due (To) From	(573,486)	-	573,486	-
Beneficial Interest in Perpetual Trust	-	-	2,917,651	2,917,651
Prepaid Land Lease, net	502,357	-	-	502,357
Property and Equipment, net	9,291,126	-	-	9,291,126
Total assets	\$ 22,523,761	\$ 15,150,237	\$ 36,094,423	\$ 73,768,421
<b>Liabilities and Net Assets</b>				
Current Liabilities:				
Current portion of note payable	\$ 100,830	\$ -	\$ -	\$ 100,830
Accounts payable and accrued expenses	482,051	-	-	482,051
Total current liabilities	582,881	-	-	582,881
Note Payable, net of current portion	2,772,283	-	-	2,772,283
Total liabilities	3,355,164	-	-	3,355,164
Net Assets:				
Unrestricted:				
Special operations fund	2,752,516	-	-	2,752,516
Fundraising initiative	5,164,969	-	-	5,164,969
Property and equipment	6,948,812	-	-	6,948,812
Special endowment funds	4,875,786	-	-	4,875,786
Depreciation on permanently restricted endowment	(573,486)	-	-	(573,486)
Total unrestricted	19,168,597	-	-	19,168,597
Temporarily restricted:				
Programs and projects	-	10,030,981	-	10,030,981
Building	-	2,861,346	-	2,861,346
Donor-restricted endowment appreciation	-	2,257,910	-	2,257,910
Total temporarily restricted	-	15,150,237	-	15,150,237
Permanently restricted:				
Donor-restricted endowment	-	-	33,176,772	33,176,772
Permanent Science Fund	-	-	2,917,651	2,917,651
Total permanently restricted	-	-	36,094,423	36,094,423
Total net assets	19,168,597	15,150,237	36,094,423	70,413,257
Total liabilities and net assets	\$ 22,523,761	\$ 15,150,237	\$ 36,094,423	\$ 73,768,421

The accompanying notes are an integral part of these consolidated statements.

**AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE**

Consolidated Statement of Activities and Changes in Net Assets  
For the Fifteen Months Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues:</b>				
Support:				
Gifts and grants	\$ 40,000	\$ 6,161,450	\$ -	\$ 6,201,450
Annual appeal	1,822,259	-	-	1,822,259
Membership dues	1,672,225	-	-	1,672,225
Income distribution from Permanent Science Fund	-	169,316	-	169,316
Net assets released from purpose restrictions	4,939,263	(4,939,263)	-	-
<b>Total support</b>	<b>8,473,747</b>	<b>1,391,503</b>	<b>-</b>	<b>9,865,250</b>
Investment return designated for operations	2,189,112	-	-	2,189,112
Sales:				
Sales and other	147,427	-	-	147,427
Publications - subscriptions, sales and royalties	115,536	-	-	115,536
Norton's Woods events, net	(24,709)	-	-	(24,709)
<b>Total sales</b>	<b>238,254</b>	<b>-</b>	<b>-</b>	<b>238,254</b>
<b>Total revenues</b>	<b>10,901,113</b>	<b>1,391,503</b>	<b>-</b>	<b>12,292,616</b>
<b>Expenses:</b>				
Academy affairs	2,345,019	-	-	2,345,019
Publications	614,969	-	-	614,969
House and conference services	916,882	-	-	916,882
Public relations	367,276	-	-	367,276
Development	1,233,786	-	-	1,233,786
General and financial administration	1,148,550	-	-	1,148,550
Projects and studies	4,619,455	-	-	4,619,455
<b>Total expenses before depreciation and amortization of land lease</b>	<b>11,245,937</b>	<b>-</b>	<b>-</b>	<b>11,245,937</b>
Depreciation and amortization of land lease	760,720	-	-	760,720
<b>Total expenses</b>	<b>12,006,657</b>	<b>-</b>	<b>-</b>	<b>12,006,657</b>
<b>Changes in net assets from operations</b>	<b>(1,105,544)</b>	<b>1,391,503</b>	<b>-</b>	<b>285,959</b>
<b>Other Changes:</b>				
Contributions to endowment	-	-	5,169,970	5,169,970
Investment returns	930,433	1,107,579	300,131	2,338,143
Less - spending policy	(819,308)	(744,314)	(329,330)	(1,892,952)
Capital grants	-	743,000	-	743,000
Net assets released from capital restrictions	190,200	(190,200)	-	-
Decrease in beneficial interest in perpetual trust	-	-	(46,864)	(46,864)
<b>Total other changes</b>	<b>301,325</b>	<b>916,065</b>	<b>5,093,907</b>	<b>6,311,297</b>
<b>Changes in net assets</b>	<b>(804,219)</b>	<b>2,307,568</b>	<b>5,093,907</b>	<b>6,597,256</b>
<b>Net Assets:</b>				
Beginning of period	19,972,816	12,842,669	31,000,516	63,816,001
End of period	<u>\$ 19,168,597</u>	<u>\$ 15,150,237</u>	<u>\$ 36,094,423</u>	<u>\$ 70,413,257</u>

The accompanying notes are an integral part of these consolidated statements.

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Statement of Cash Flows  
For the Fifteen Months Ended June 30, 2015

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<b>Cash Flows from Operating Activities:</b>	
Changes in net assets	\$ 6,597,256
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Net gain on investments	(1,015,637)
Decrease in beneficial interest in perpetual trust	46,864
Capital grants	(743,000)
Contributions to endowment	(5,169,970)
Depreciation and amortization of land lease	760,720
Changes in operating assets and liabilities:	
Accounts receivable and other current assets	(44,026)
Grants and pledges receivable	(372,713)
Accounts payable and accrued expenses	(644,804)
	<hr/>
Net cash used in operating activities	(585,310)
	<hr/>
<b>Cash Flows from Investing Activities:</b>	
Purchases of investments	(25,585,729)
Proceeds from sale of investments	26,636,682
Property and equipment acquisitions	(669,498)
	<hr/>
Net cash provided by investing activities	381,455
	<hr/>
<b>Cash Flows from Financing Activities:</b>	
Principal payments on note payable	(186,709)
Contributions to endowment	169,970
Capital grants	143,000
	<hr/>
Net cash provided by financing activities	126,261
	<hr/>
<b>Net Change in Cash</b>	(77,594)
	<hr/>
<b>Cash:</b>	
Beginning of period	<hr/> 199,794
End of period	<hr/> <hr/> \$ 122,200
	<hr/>
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Cash paid for interest	<hr/> <hr/> \$ 72,488

The accompanying notes are an integral part of these consolidated statements.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Statement of Functional Expenses  
For the Fifteen Months Ended June 30, 2015

	<u>Academy Affairs</u>	<u>Publications</u>	<u>House and Conference Services</u>	<u>Public Relations</u>	<u>Development</u>	<u>General and Financial Adminis- tration</u>	<u>Projects and Studies</u>	<u>Total</u>
<b>Personnel and Related:</b>								
Salaries	\$ 940,890	\$ 310,295	\$ 168,971	\$ 111,725	\$ 813,639	\$ 507,072	\$ 2,119,957	\$ 4,972,549
Fringe benefits and payroll taxes	245,481	90,591	70,639	22,176	197,800	110,667	383,166	1,120,520
Total personnel and related	<u>1,186,371</u>	<u>400,886</u>	<u>239,610</u>	<u>133,901</u>	<u>1,011,439</u>	<u>617,739</u>	<u>2,503,123</u>	<u>6,093,069</u>
<b>Other:</b>								
Services	184,325	39,390	449,515	222,449	84,161	237,588	890,797	2,108,225
Meetings	588,431	3,984	716	4,957	21,390	17,780	253,059	890,317
Travel and conferences	187,416	621	-	-	8,640	29,725	525,698	752,100
Printing and mailing	101,833	127,182	11	417	53,703	3,906	219,779	506,831
Supplies and equipment	43,199	5,681	22,697	2,344	31,257	99,942	31,460	236,580
Other	45,653	74	2,819	2,754	19,198	36,814	54,913	162,225
Insurance	474	11,278	5,719	-	-	84,640	4,855	106,966
Telephone and postage	7,317	25,873	4,931	454	3,998	20,416	38,904	101,893
Utilities	-	-	99,453	-	-	-	-	99,453
Interest	-	-	72,488	-	-	-	-	72,488
Fees and honoraria	-	-	-	-	-	-	62,717	62,717
Space rental	-	-	18,923	-	-	-	34,150	53,073
Total other	<u>1,158,648</u>	<u>214,083</u>	<u>677,272</u>	<u>233,375</u>	<u>222,347</u>	<u>530,811</u>	<u>2,116,332</u>	<u>5,152,868</u>
Total expenses before depreciation and amortization of land lease	2,345,019	614,969	916,882	367,276	1,233,786	1,148,550	4,619,455	11,245,937
<b>Depreciation and amortization of land lease</b>	<u>-</u>	<u>-</u>	<u>760,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>760,720</u>
Total expenses	<u>\$ 2,345,019</u>	<u>\$ 614,969</u>	<u>\$ 1,677,602</u>	<u>\$ 367,276</u>	<u>\$ 1,233,786</u>	<u>\$ 1,148,550</u>	<u>\$ 4,619,455</u>	<u>\$ 12,006,657</u>

The accompanying notes are an integral part of these consolidated statements.

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

#### OPERATIONS AND NONPROFIT STATUS

American Academy of Arts and Sciences (the Academy) is a national honorary society, founded in 1780 by John Adams and other leaders of the Massachusetts Bay Colony. Today, its approximately 4,700 fellows and 600 Foreign Honorary Members include distinguished scholars, scientists, and public officials. The principal activity of the Academy is to sponsor interdisciplinary study projects on topics in the public interest. Reports of such projects appear in *Daedalus*, the journal of the Academy, and in other independent publications.

The Academy is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Academy is also exempt from state income taxes. Donors may deduct contributions made to the Academy within the IRC requirements.

The operations of the Academy include the following:

#### **Academy Affairs**

These include ongoing activities of the Academy and include Academy membership, projects, studies, meetings, overall organizational direction, as well as publications for select projects.

#### **Publications**

Publications include specific topical programs and studies undertaken for publication by the Academy. The Academy publishes occasional papers on various topics as well as journals, including *Daedalus*, the *Bulletin* and the *Academy Annual Report*.

*Daedalus* is the Academy's quarterly journal which publishes written works on topics selected by the Academy. Operations of *Daedalus* include subscription management and single copy sales.

#### **House and Conference Services**

House and Conference Services include costs associated with the maintenance of the Academy's main facility in Cambridge, Massachusetts, as well as the internal use of this facility for a wide variety of functions.

#### **Public Relations**

Public relations include costs associated with promoting institutional and programmatic activities of the Academy.

#### **Projects and Studies**

Projects and studies consist primarily of studies and other academic endeavors funded from internal and external sources. These projects include: Science Policy, Security, Humanities, Education, and Civil Society. These projects result in publications and conferences and other related activities.



## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### OPERATIONS AND NONPROFIT STATUS (Continued)

##### Norton's Woods, Inc.

The Academy formed a wholly-owned for-profit subsidiary for the purpose of segregating the financial activity related to the use of the Academy's facilities by outside parties. Norton's Woods, Inc. (the Affiliate) is organized as a C-corporation for income tax purposes.

Summarized results of operations of the Affiliate for the fifteen months ended June 30, 2015, are as follows:

Revenue	\$ 512,450
Expenses - direct	<u>(537,159)</u>
Norton's Woods events, net	(24,709)
Facility allocations	(749,800)
Overhead allocations	<u>(107,522)</u>
Net loss	<u>\$ (882,031)</u>

Expenses of the Affiliate include intercompany facility and overhead allocations from the Academy totaling \$857,322 for the fifteen months ended June 30, 2015. These amounts have been eliminated in the accompanying consolidated financial statements.

At June 30, 2015, the Affiliate had Federal and state income tax net operating loss carryforwards of approximately \$6,055,000 and \$3,372,000, respectively, available to offset future taxable income. These carryforwards expire at various dates through 2035 for Federal purposes and through 2020 for state purposes. These unused net operating loss carryforwards give rise to certain deferred tax assets, the value of which has been fully reserved in the accompanying consolidated financial statements due to the uncertainty of their use to offset future taxable income.

##### Development

Development includes the fundraising activities of the Academy to support the various programs.

##### General and Financial Administration

General and financial administration consists of various costs and activities necessary to support the other operations of the Academy.

#### SIGNIFICANT ACCOUNTING POLICIES

The Academy and the Affiliate prepare their consolidated financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Principles of Consolidation

The consolidated financial statements include the accounts of the Academy and the Affiliate. All significant intercompany transactions have been eliminated in the accompanying consolidated financial statements. Effective June 2015, the Academy and the Affiliate changed their fiscal year ends from March 31<sup>st</sup> to June 30<sup>th</sup>. The Academy and the Affiliate have elected to present the accompanying consolidated financial statements for the fifteen month period from April 1, 2014 through June 30, 2015.

##### Cash

For the purpose of the statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash.

##### Net Assets

**Unrestricted** net assets include those net resources that bear no external restrictions and are currently available for use by the Academy. The Academy has several classifications of unrestricted net assets as follows:

**Special operations fund** net assets represent unrestricted resources designated by the Academy's governing board to be used at the recommendation of the President and Board of Directors for development purposes and special initiatives of the Academy. Operating surpluses have been designated for this fund.

**Fundraising initiative** net assets represent unrestricted resources donated as part of a comprehensive fundraising initiative. Funds accumulating in this net asset category may be re-designated to other areas at the conclusion of the initiative. Beginning in fiscal year 2014, the Academy allocated a share of investment returns to this fund, as well as a portion of the Academy's investment spending policy (see page 9). No amounts were re-designated from this fund in the fifteen months period ended June 30, 2015.

**Property and equipment** net assets represent resources available and amounts expended for property and equipment, net of related debt.

**Special endowment funds** have no external restrictions but have designated limitations initiated by the Academy's governing board. These limitations may be canceled at the direction of its governing board. These endowments include, among others, funds for major repairs which are designated reserve funds for major property and equipment additions and repairs (see page 15).

**Depreciation on permanently restricted endowment** represents the cumulative depreciation on certain permanently restricted net assets.

**Temporarily restricted** net assets represent amounts received or committed with donor restrictions, which have not yet been expended for their designated purpose. Temporarily restricted net assets also include a Building Fund, which is held as a source for maintaining the property and future capital needs and the appreciation on certain permanently restricted net assets.

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Net Assets (Continued)

**Permanently restricted** net assets represent amounts which are restricted by donors against any expenditures of principal. Substantially all income earned may be used for general and certain specified purposes. Accordingly, all such investment income has been reflected in unrestricted or temporarily restricted net assets.

Permanently restricted net assets also include the Academy's beneficial interest in an outside trust fund, the Permanent Science Fund (see Note 5). The Academy does not have an ownership interest in the trust, but is its sole income beneficiary in perpetuity. According to the terms of the trust agreement, the Permanent Science Fund is invested by an outside trustee.

Permanently restricted net assets also include a donor-designated fund for Humanities. The Humanities' donor required that all unappropriated investment earnings, including investment appreciation, be added to the permanently restricted historic dollar value of the original gift (\$600,000), plus required matching funds of \$800,000, as donor-designated accumulations. Investment depreciation, if any, therefore reduces permanently restricted Humanities net assets to the extent that the historic dollar value of the original gift is not reduced. The Humanities Fund is included in donor-restricted endowment in the accompanying consolidated financial statements.

##### Investment Spending Policy

The Academy's investment and spending policies for endowment assets are designed to provide a predictable source of revenue for specific programs. Endowment assets include temporarily and permanently donor-restricted funds that the Academy must hold in perpetuity, as well as special designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce long-term yields while assuming a moderate risk. The Academy maintains an asset allocation with an emphasis on equity-based investments and fixed-income securities. The Academy's investment committee reviews this policy periodically based on current market conditions.

The Academy designates only a portion of its cumulative investment return for support of operations; the remainder is retained to support operations of future years and to offset potential market declines. Massachusetts state law allows the Academy to appropriate as much of the net appreciation as is prudent considering its long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the Academy's spending policy for the fifteen months ended June 30, 2015, 5.2 percent of a twelve quarter average of the fair value of endowment investments from the previous three fiscal years was appropriated to support operations. Beginning in fiscal year 2014, the Academy also draws 5.2 percent of a twelve quarter average of the fair value of Fundraising Initiative Fund investments (see page 8). The spending policy is computed and drawn quarterly, using the quarter ending percentage of individual endowment net assets and related appreciation (depreciation) divided by the total endowment net assets including appreciation (depreciation) on a pro rata basis.

##### Fair Value Measurements

The Academy follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Academy would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Fair Value Measurements (Continued)

The Academy uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Academy. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

##### **Cash Equivalents**

The Academy considers all highly liquid investments purchased with a maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents held as part of the investment portfolio are included in investments in the accompanying consolidated financial statements. All cash equivalents are considered level 1 in the fair value hierarchy.

##### **Investments**

Investments are recorded in the consolidated financial statements at fair value. If an investment is directly held by the Academy and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Academy's interests in alternative investment funds such as private equity and multi-strategy funds are generally reported at the net asset value (NAV) reported by fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015, the Academy had no plans to sell investments at amounts different from NAV.

A summary of inputs used in valuing the Academy's investments as of June 30, 2015, is included in Note 3.

##### **All Other Assets and Liabilities**

The carrying value of all other qualifying assets and liabilities, including the note payable, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Investments

Investments (see Note 3) consist of the Academy's holdings of marketable and alternative financial securities held for purposes of financial returns. Investment income includes interest, dividends and mutual fund distributions, which are recorded when earned or declared. Unrealized gains and losses are recorded based on market value changes during the period. Realized gains and losses on investment transactions are recorded based on the average cost method.

##### Grants and Pledges Receivable and Allowance for Uncollectible Amounts

Grants and pledges receivable represent grants and contributions unconditionally committed to the Academy (see Note 6). Multi-year grants and pledges receivable have been discounted by \$18,398 for the fifteen months ended June 30, 2015. Grants and pledges receivable are reviewed annually and an allowance for uncollectible amounts due is recorded if amounts are deemed uncollectible. There was no allowance at June 30, 2015.

##### Collections

The Academy does not capitalize collections that have been acquired through purchase or donation. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired.

##### Revenue Recognition and Expense Allocation

Annual appeal contributions and membership dues are recognized as revenue when received. Project gift and grant revenues are recognized as costs are incurred on projects. Restricted grants received in advance of costs incurred are recorded as temporarily restricted net assets. As costs are incurred, restricted amounts are reclassified to unrestricted net assets and reflected as net assets released from restrictions in the accompanying consolidated statement of activities and changes in net assets. Sales revenue for publications and house rentals are recorded when earned.

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program or function.

##### Donated Goods and Services

The Academy receives services of volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying consolidated financial statements, since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria for recognition under U.S. GAAP.

##### Property and Equipment and Depreciation

Purchases of property and equipment are recorded at cost (see Note 2). Renewals and betterments are capitalized while repairs and maintenance are expensed as incurred. Depreciation is computed using on the straight line basis over the following estimated useful lives:

Building	100 years
Building improvements	5 – 50 years
Furniture and equipment	3 – 25 years

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Income Taxes

The Academy accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Academy has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at June 30, 2015. The Academy's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

The Affiliate is a for-profit corporation and accounts for uncertainty in income taxes in accordance with ASC Topic *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Management of the Affiliate has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at June 30, 2015. The Affiliate's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of June 30, 2015, the Academy's Federal and state tax returns generally remain open for the most recent three years.

##### Subsequent Events

Subsequent events have been evaluated through October 29, 2015, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidated financial statements.

### 2. PROPERTY AND EQUIPMENT

Property and equipment (see Note 1) consist of the following at June 30, 2015:

Building and improvements	\$ 13,444,414
Furniture and equipment	<u>2,895,291</u>
	16,339,705
Less - accumulated depreciation	<u>7,048,579</u>
	<u>\$ 9,291,126</u>

Depreciation expense for the fifteen months ended June 30, 2015, was \$750,619.

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 2. PROPERTY AND EQUIPMENT (Continued)

The Academy's main facility is located in Cambridge, Massachusetts on land leased from Harvard University. The lease was prepaid in full at inception in 1978. The balance of the prepayment is being amortized over the lease's ninety-nine year term, which expires in the year 2077. Amortization expense was \$10,101 for the fifteen months ended June 30, 2015. The balance of the prepaid lease as of June 30, 2015, is as follows:

Prepayment	\$ 800,000
Amortized to date	<u>297,643</u>
	<u>\$ 502,357</u>

### 3. INVESTMENTS

Investments are presented in the accompanying consolidated financial statements at fair value (see Note 1) and are comprised of the following as of June 30, 2015:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and equivalents	\$ <u>10,346,816</u>	\$ <u>10,346,816</u>	\$ <u>-</u>
Equities:			
Global emerging markets mutual fund	6,645,427	6,075,815	(569,612)
Global markets mutual fund	10,611,544	11,391,070	779,526
Domestic markets mutual fund	<u>15,396,058</u>	<u>20,757,489</u>	<u>5,361,431</u>
Sub-total equities	<u>32,653,029</u>	<u>38,224,374</u>	<u>5,571,345</u>
Fixed income:			
Government mutual fund	<u>2,001,873</u>	<u>2,180,821</u>	<u>178,948</u>
Alternatives:			
Multi-strategy fund	2,500,000	2,536,082	36,082
Private equity fund	<u>704,154</u>	<u>346,206</u>	<u>(357,948)</u>
Sub-total alternatives	<u>3,204,154</u>	<u>2,882,288</u>	<u>(321,866)</u>
Total investments	<u>\$ 48,205,872</u>	<u>\$ 53,634,299</u>	<u>\$ 5,428,427</u>

**AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE**

Notes to Consolidated Financial Statements  
June 30, 2015

**3. INVESTMENTS (Continued)**

The following table presents the fair value measurements of the Academy's investments by level within the valuation framework as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and equivalents	\$ 10,346,816	\$ -	\$ -	\$ 10,346,816
Equities:				
Global emerging markets mutual fund	6,075,815	-	-	6,075,815
Global markets mutual fund	11,391,070	-	-	11,391,070
Domestic markets mutual fund	20,757,489	-	-	20,757,489
Fixed income:				
Government mutual fund	2,180,821	-	-	2,180,821
Alternatives:				
Multi-strategy fund	-	2,536,082	-	2,536,082
Private equity fund	-	346,206	-	346,206
	<u>\$ 50,752,011</u>	<u>\$ 2,882,288</u>	<u>\$ -</u>	<u>\$ 53,634,299</u>

The values of the Academy's investments in certain multi-strategy and private equity funds are derived by using each fund's net asset value per share (see page 10). These investments are considered to be valued using Level 2 inputs due to the Academy's ability to liquidate these funds in the near term (see page 10).

The Academy has made capital commitments to certain investments as of June 30, 2015. Unfunded commitments were \$160,000 as of June 30, 2015.

Unrealized gains on investments are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Accumulated Appreciation</u>
June 30, 2015	\$ 48,205,872	\$ 53,634,299	\$ 5,428,427
March 31, 2014	\$ 49,166,461	\$ 53,669,615	<u>4,503,154</u>
Net unrealized gains			<u>\$ 925,273</u>

Investments are not insured and are subject to market fluctuations. The investments have been allocated among the unrestricted, temporarily restricted and permanently restricted net asset classes in the accompanying consolidated financial statements according to the absence or presence of donor restrictions. Investments available to support programs and projects are classified as current assets in the accompanying consolidated statement of financial position.



**AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE**

Notes to Consolidated Financial Statements  
June 30, 2015

**3. INVESTMENTS (Continued)**

The following schedule summarizes the investment return and its classification in the consolidated statement of activities and changes in net assets:

Net unrealized gains - endowment	\$ 661,720
Net unrealized gains - non-endowment	263,552
Net realized gains - endowment	63,982
Net realized gains - non-endowment	26,383
Investment income - endowment	1,158,215
Investment income - non-endowment	<u>460,451</u>
Total investment return	<u>2,634,303</u>
Less - investment return designated for operations:	
Spending policy (see page 9)	1,892,952
Investment income earned on operating funds	<u>296,160</u>
Total investment return designated for operations	<u>2,189,112</u>
Investment return in excess of spending policy	<u>\$ 445,191</u>

**4. ENDOWMENTS**

Changes in endowment net assets by class are as follows:

	<u>Unrestricted</u>		<u>Donor Restricted</u>			<u>Total Endowment</u>
	<u>Depreciation on Permanently Restricted</u>	<u>Special Endowment Funds</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Donor Restricted</u>	
Endowment net assets, March 31, 2014	<u>\$ (546,232)</u>	<u>\$ 5,374,889</u>	<u>\$ 5,311,499</u>	<u>\$ 28,036,001</u>	<u>\$ 33,347,500</u>	<u>\$ 38,176,157</u>
Investment return:						
Investment income	130,613	163,569	679,300	184,733	864,033	1,158,215
Net realized/unrealized gains	<u>82,371</u>	<u>102,385</u>	<u>425,548</u>	<u>115,398</u>	<u>540,946</u>	<u>725,702</u>
Total investment return	<u>212,984</u>	<u>265,954</u>	<u>1,104,848</u>	<u>300,131</u>	<u>1,404,979</u>	<u>1,883,917</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,169,970</u>	<u>5,169,970</u>	<u>5,169,970</u>
Appropriation of endowment assets for expenditure	<u>(240,238)</u>	<u>(258,858)</u>	<u>(1,297,091)</u>	<u>(329,330)</u>	<u>(1,626,421)</u>	<u>(2,125,517)</u>
Other changes	<u>-</u>	<u>(506,199)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(506,199)</u>
Endowment net assets, June 30, 2015	<u>\$ (573,486)</u>	<u>\$ 4,875,786</u>	<u>\$ 5,119,256</u>	<u>\$ 33,176,772</u>	<u>\$ 38,296,028</u>	<u>\$ 42,598,328</u>

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 4. ENDOWMENTS (Continued)

For the fifteen months ended June 30, 2015, other changes include an allocation of house and conference services expenses of \$50,367 and withdrawals from the fund for major repairs of \$455,832.

During the fifteen months ended June 30, 2015, the Academy received endowment gifts totaling \$5,169,970. These gifts are permanently restricted and only earnings on these gifts can be used for the purpose set forth in the grant agreements.

### 5. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Academy has a beneficial interest in an outside perpetual trust (see Note 1). The principal, as well as annual gains or losses, are restricted in perpetuity. The investment income generated from the investments is distributed monthly by the trustee to the Academy and is reported by the Academy as temporarily restricted income distribution from the Permanent Science Fund in the accompanying consolidated statement of activities and changes in net assets. The Academy received \$169,316 of investment income for the fifteen months ended June 30, 2015.

In accordance with U.S. GAAP, the Academy has recorded in its consolidated financial statements the fair value of the trust's marketable securities as its beneficial interest in the trust as permanently restricted net assets (see Note 1). Due to the fact that the trust is held in perpetuity, the Academy values its interest using Level 3 inputs. Gains and losses on investments are considered changes in the present value of expected cash flows and are recognized as changes in permanently restricted net assets. The Academy's interest in this trust was \$2,917,651 after recording the change in value of its interest of \$(46,864) for the fifteen months ended June 30, 2015.

Assets held within the beneficial interest in perpetual trust are comprised of investments within the following levels of inputs under the fair value hierarchy at June 30, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$ 110,862	\$ -	\$ -	\$ 110,862
Fixed income - U.S. mutual funds	1,003,642	-	-	1,003,642
Marketable equities:				
U.S. mutual funds	856,676	-	-	856,676
International mutual funds	470,647	-	-	470,647
Alternative strategies mutual fund	<u>475,824</u>	<u>-</u>	<u>-</u>	<u>475,824</u>
	<u>\$ 2,917,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,917,651</u>

### 6. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consist of amounts committed to the Academy for both unrestricted and restricted purposes. These amounts are due as follows as of June 30, 2015:

Due within one year	\$ 6,535,534
Due within one to five years	\$ 528,000

As of June 30, 2015, one donor represented approximately 79% of grants and pledges receivable. Pledges for endowment or capital purposes are classified as long-term assets in the accompanying consolidated statement of financial position regardless of expected payment dates due to the long-term intent of the pledge.

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 7. RETIREMENT PLANS

The Academy contributes to a defined contribution pension plan under IRC Section 403(b), which is administered by Teachers Insurance Annuity Association/College Retirement Equity Fund and covers all eligible employees. Employees are eligible to participate after completing one year of service and attaining age 21. The Academy may also make discretionary contributions equal to either 10% or 15%, depending on seniority, of the employee's annual compensation to the plan. Contributions to the plan will vest over employees' six years of participation in the plan. For the fifteen months ended June 30, 2015, the Academy's contributions were \$410,474 and are included in fringe benefits and payroll taxes in the accompanying consolidated financial statements.

The Affiliate maintains a qualified salary reduction 401(k) plan. The salary reduction plan covers substantially all of its employees who have met the eligibility requirements. Employees may contribute up to 15% of their annual salary, capped at a maximum amount of \$17,500 for the fifteen months ended June 30, 2015.

### 8. NOTE PAYABLE

The Academy has a \$4,100,000 note payable agreement with the Massachusetts Development Finance Agency (MDFA). The proceeds of the note were used for redesign, renovation and upgrade of the Academy's facility (see Note 2). The note bears interest at a variable rate based on the weighted yield of tax-exempt bonds issued by Massachusetts Health and Educational Facilities Authority (MHEFA) to provide financing for the Academy. The interest rate was 0.08% on June 30, 2015. Interest and fee payments are made on a monthly basis and began at closing. Principal payments are due in accordance to a fixed amortization schedule. The maturity date of the note payable is July 2032, at which time the Academy will be required to make a balloon payment of \$256,140.

The note agreement contains certain financial covenants concerning debt service coverage, maintenance of cash balances, and other matters, all of which the Academy was in compliance with as of June 30, 2015.

To ensure performance on the note, the Academy has also entered into a letter of credit reimbursement agreement with a bank for an irrevocable, direct pay letter of credit in an amount equal to the outstanding principal balance, plus 45 days expected interest at an assumed interest rate of 12% per year (\$2,915,619 at June 30, 2015). The agreement requires payment of fees monthly at an annualized rate of 1.970% of the outstanding balance of the note as of June 30, 2015. The letter of credit expires on December 31, 2015.

Principal payments on the note over the next five years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2016	\$ 100,830
2017	\$ 106,880
2018	\$ 113,290
2019	\$ 120,090
2020	\$ 127,290

## AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements  
June 30, 2015

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### 8. NOTE PAYABLE (Continued)

The Academy is required to maintain the following escrowed funds on deposit with a trustee pursuant to the note payable agreement as of June 30, 2015:

Debt Service Reserve Account	\$ 28,442
Expense Account	14,744
Debt Service Interest Reserve Account	<u>247</u>
	<u>\$ 43,433</u>

- Debt Service Reserve Account - The amount in this account must equal 1% of the principal amount of the outstanding note payable.
- Expense Account - Established to pay issuance costs of the note payable.
- Debt Service Interest Reserve Account - Established to pay monthly interest in accordance with the note payable agreement.

These amounts are included in accounts receivable and other current assets in the accompanying consolidated statement of financial position.

### 9. CONCENTRATION OF CREDIT RISK

The Academy maintains its cash balances in a Massachusetts bank and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the fifteen months ended June 30, 2015, the cash balance exceeded the insured amount. The Academy has not experienced any losses in the account. The Academy's management believes the Academy is not exposed to any significant credit risk on cash.

### 10. CONDITIONAL GRANT

During 2015, the Academy received a conditional grant in the amount of \$1,000,000, payable over ten years in \$100,000 installments. Installment payments totaling \$100,000 were made to the Academy during the fifteen months ended June 30, 2015, which are included in contributions to endowment in the accompanying consolidated statement of activities and changes in net assets. The remaining installments are conditional upon the Academy reaching specific milestones, as defined in the grant agreement, and these amounts have not been recorded in the accompanying consolidated financial statements as of June 30, 2015, as the conditions have not yet been met.