

**Consolidated Financial Statements**  
**American Academy of Arts and Sciences**  
**and Affiliate**

**June 30, 2017 and 2016**



# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Consolidated Financial Statements*

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## *Independent Auditors' Report*

To the Board of Directors and Audit Committee of  
American Academy of Arts and Sciences and Affiliate  
Cambridge, Massachusetts

We have audited the accompanying consolidated financial statements of American Academy of Arts and Sciences and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Maye Heyman McCann P.C.*

November 2, 2017  
Boston, Massachusetts

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

*Consolidated Statements of Financial Position*

	<i>June 30,</i>	
<b>Assets</b>	<i>2017</i>	<i>2016</i>
Cash	\$ 212,765	\$ 240,348
Grants and pledges receivable, net	8,418,153	2,017,141
Other assets	219,333	397,472
Investments	60,785,982	53,997,460
Beneficial interest in perpetual trust for science	2,809,091	2,713,792
Prepaid land lease, net	486,195	494,276
Property and equipment, net	<u>9,916,825</u>	<u>9,599,966</u>
<b>Total assets</b>	<b><u>\$ 82,848,344</u></b>	<b><u>\$ 69,460,455</u></b>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 500,473	\$ 474,556
Note payable	<u>2,663,322</u>	<u>2,771,272</u>
<b>Total liabilities</b>	<b><u>3,163,795</u></b>	<b><u>3,245,828</u></b>
 Net assets:		
Unrestricted:		
Special operations fund	3,430,920	2,002,222
Funds acting as endowment	6,814,269	5,604,006
Property and equipment	6,767,060	7,348,920
Special endowment funds	5,042,838	4,674,237
Depreciation on permanently restricted endowment	<u>(442,887)</u>	<u>(1,007,956)</u>
<b>Total unrestricted</b>	<b><u>21,612,200</u></b>	<b><u>18,621,429</u></b>
 Temporarily restricted:		
Programs and projects	12,232,058	7,568,008
Building fund	2,642,473	2,673,621
Donor-restricted endowment appreciation	<u>3,092,881</u>	<u>1,231,345</u>
<b>Total temporarily restricted</b>	<b><u>17,967,412</u></b>	<b><u>11,472,974</u></b>
 Permanently restricted:		
Donor-restricted endowment	37,295,846	33,406,432
Beneficial interest in perpetual trust for science	<u>2,809,091</u>	<u>2,713,792</u>
<b>Total permanently restricted</b>	<b><u>40,104,937</u></b>	<b><u>36,120,224</u></b>
<b>Total net assets</b>	<b><u>79,684,549</u></b>	<b><u>66,214,627</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 82,848,344</u></b>	<b><u>\$ 69,460,455</u></b>

*See accompanying notes to the consolidated financial statements.*

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

*Consolidated Statement of Activities and Changes in Net Assets*

*For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>2016 Total</i>
<b>Revenues:</b>					
Support:					
Gifts and grants	\$ 751,917	\$ 8,450,281	\$ -	\$ 9,202,198	\$ 2,502,175
Annual appeal	1,746,979	-	-	1,746,979	1,829,292
University affiliates	922,500	-	-	922,500	887,000
Membership dues	1,308,125	-	-	1,308,125	1,238,225
Distribution from beneficial interest in perpetual trust for science	-	125,688	-	125,688	139,420
Investment income	173,654	11,384	-	185,038	138,271
Other operating income	270,213	119,938	-	390,151	336,049
Net assets released from purpose restrictions	4,451,423	(4,451,423)	-	-	-
Total support	<u>9,624,811</u>	<u>4,255,868</u>	<u>-</u>	<u>13,880,679</u>	<u>7,070,432</u>
Investment return designated for operations and programs	<u>1,316,090</u>	<u>594,557</u>	<u>-</u>	<u>1,910,647</u>	<u>1,784,474</u>
<b>Total revenues</b>	<b><u>10,940,901</u></b>	<b><u>4,850,425</u></b>	<b><u>-</u></b>	<b><u>15,791,326</u></b>	<b><u>8,854,906</u></b>
<b>Expenses:</b>					
Projects and studies	3,783,584	-	-	3,783,584	4,016,598
Publications	584,694	-	-	584,694	540,797
Archives	120,837	-	-	120,837	160,256
Events and outreach	947,936	-	-	947,936	1,000,058
Member engagement	322,454	-	-	322,454	189,743
Membership elections	242,200	-	-	242,200	260,442
Communications	340,703	-	-	340,703	410,784
Governance	318,046	-	-	318,046	239,852
Administration	1,059,149	-	-	1,059,149	756,914
Development	1,153,752	-	-	1,153,752	1,207,304
Finance and operations	1,132,375	-	-	1,132,375	1,089,830
House and conference services	1,506,371	-	-	1,506,371	1,331,263
<b>Total operating expenses</b>	<b><u>11,512,101</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>11,512,101</u></b>	<b><u>11,203,841</u></b>
<b>Changes in net assets from operations</b>	<b><u>(571,200)</u></b>	<b><u>4,850,425</u></b>	<b><u>-</u></b>	<b><u>4,279,225</u></b>	<b><u>(2,348,935)</u></b>
<b>Other changes:</b>					
Contributions to endowment or designated as such by Board	-	-	3,319,242	3,319,242	677,283
Investment returns					
Interest and dividends, net	227,391	356,266	91,758	675,415	640,412
Realized and unrealized gains (losses)	2,989,081	3,138,663	758,644	6,886,388	(1,594,680)
Less - spending policy	(421,640)	(1,208,777)	(280,230)	(1,910,647)	(1,784,474)
Endowment adjustment	175,765	(175,765)	-	-	-
Capital grants	-	125,000	-	125,000	415,623
Net assets released from capital restrictions	591,374	(591,374)	-	-	-
Increase (decrease) in beneficial interest in perpetual trust for science	-	-	95,299	95,299	(203,859)
Total other changes	<u>3,561,971</u>	<u>1,644,013</u>	<u>3,984,713</u>	<u>9,190,697</u>	<u>(1,849,695)</u>
<b>Changes in net assets</b>	<b><u>2,990,771</u></b>	<b><u>6,494,438</u></b>	<b><u>3,984,713</u></b>	<b><u>13,469,922</u></b>	<b><u>(4,198,630)</u></b>
Net assets, beginning of year	<u>18,621,429</u>	<u>11,472,974</u>	<u>36,120,224</u>	<u>66,214,627</u>	<u>70,413,257</u>
<b>Net assets, end of year</b>	<b><u>\$ 21,612,200</u></b>	<b><u>\$ 17,967,412</u></b>	<b><u>\$ 40,104,937</u></b>	<b><u>\$ 79,684,549</u></b>	<b><u>\$ 66,214,627</u></b>

*See accompanying notes to the consolidated financial statements.*

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

*Consolidated Statement of Activities and Changes in Net Assets*

*For the Year Ended June 30, 2016*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
<b>Revenues:</b>				
Support:				
Gifts and grants	\$ 833,591	\$ 1,668,584	\$ -	\$ 2,502,175
Annual appeal	1,829,292	-	-	1,829,292
University affiliates	887,000	-	-	887,000
Membership dues	1,238,225	-	-	1,238,225
Distribution from beneficial interest in perpetual trust for science	-	139,420	-	139,420
Investment income	138,271	-	-	138,271
Other operating income	336,049	-	-	336,049
Net assets released from purpose restrictions	4,473,232	(4,473,232)	-	-
Total support	<u>9,735,660</u>	<u>(2,665,228)</u>	<u>-</u>	<u>7,070,432</u>
Investment return designated for operations and programs	<u>1,286,975</u>	<u>497,499</u>	<u>-</u>	<u>1,784,474</u>
<b>Total revenues</b>	<b><u>11,022,635</u></b>	<b><u>(2,167,729)</u></b>	<b><u>-</u></b>	<b><u>8,854,906</u></b>
<b>Expenses:</b>				
Projects and studies	4,016,598	-	-	4,016,598
Publications	540,797	-	-	540,797
Archives	160,256	-	-	160,256
Events and outreach	1,000,058	-	-	1,000,058
Member engagement	189,743	-	-	189,743
Membership elections	260,442	-	-	260,442
Communications	410,784	-	-	410,784
Governance	239,852	-	-	239,852
Administration	756,914	-	-	756,914
Development	1,207,304	-	-	1,207,304
Finance and operations	1,089,830	-	-	1,089,830
House and conference services	1,331,263	-	-	1,331,263
<b>Total operating expenses</b>	<b><u>11,203,841</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>11,203,841</u></b>
<b>Changes in net assets from operations</b>	<b><u>(181,206)</u></b>	<b><u>(2,167,729)</u></b>	<b><u>-</u></b>	<b><u>(2,348,935)</u></b>
<b>Other changes:</b>				
Contributions to endowment or designated as such by Board	85,795	-	591,488	677,283
Investment returns				
Interest and dividends, net	298,064	255,496	86,852	640,412
Realized and unrealized gains (losses)	(957,211)	(464,482)	(172,987)	(1,594,680)
Less - spending policy	(688,070)	(820,711)	(275,693)	(1,784,474)
Endowment adjustment	184,593	(184,593)	-	-
Capital grants	-	415,623	-	415,623
Net assets released from capital restrictions	710,867	(710,867)	-	-
Decrease in beneficial interest in perpetual trust for science	-	-	(203,859)	(203,859)
Total other changes	<u>(365,962)</u>	<u>(1,509,534)</u>	<u>25,801</u>	<u>(1,849,695)</u>
<b>Changes in net assets</b>	<b><u>(547,168)</u></b>	<b><u>(3,677,263)</u></b>	<b><u>25,801</u></b>	<b><u>(4,198,630)</u></b>
Net assets, beginning of year	<u>19,168,597</u>	<u>15,150,237</u>	<u>36,094,423</u>	<u>70,413,257</u>
<b>Net assets, end of year</b>	<b><u>\$ 18,621,429</u></b>	<b><u>\$ 11,472,974</u></b>	<b><u>\$ 36,120,224</u></b>	<b><u>\$ 66,214,627</u></b>

*See accompanying notes to the consolidated financial statements.*

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Consolidated Statements of Cash Flows*

	<i>Years Ended June 30,</i>	
	<i>2017</i>	<i>2016</i>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 13,469,922	\$ (4,198,630)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Realized and unrealized (gains) losses on investments	(6,886,388)	1,594,680
Bad debt expense	-	85,500
Decrease in beneficial interest in perpetual trust for science	(95,299)	203,859
Capital grants	(125,000)	(415,623)
Contributions to endowment	(3,319,242)	(677,283)
Depreciation and amortization	861,350	737,927
Changes in operating assets and liabilities:		
Other assets	178,139	(141,820)
Grants and pledges receivable	(5,330,079)	(634,881)
Accounts payable and accrued expenses	25,917	(7,495)
	<u>(1,220,680)</u>	<u>(3,453,766)</u>
<b>Net cash used in operating activities</b>	<b>(1,220,680)</b>	<b>(3,453,766)</b>
<b>Cash flows from investing activities:</b>		
Cash paid for purchases of investments	(11,808,335)	(6,152,550)
Cash received from sale of investments	11,906,201	4,194,709
Property and equipment acquisitions	(1,170,128)	(1,038,686)
	<u>(1,072,262)</u>	<u>(2,996,527)</u>
<b>Net cash used in investing activities</b>	<b>(1,072,262)</b>	<b>(2,996,527)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on note payable	(107,950)	(101,841)
Contributions to endowment	2,248,309	5,660,000
Capital grants	125,000	1,010,282
	<u>2,265,359</u>	<u>6,568,441</u>
<b>Net cash provided by financing activities</b>	<b>2,265,359</b>	<b>6,568,441</b>
<b>Net change in cash</b>	<b>(27,583)</b>	<b>118,148</b>
Cash, beginning of year	240,348	122,200
<b>Cash, end of year</b>	<b>\$ 212,765</b>	<b>\$ 240,348</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 72,112</u>	<u>\$ 58,463</u>

*See accompanying notes to the consolidated financial statements.*

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

*Consolidated Statement of Functional Expenses*

*For the Year Ended June 30, 2017*

	<i>Projects and Studies</i>	<i>Publications</i>	<i>Archives</i>	<i>Events and Outreach</i>	<i>Member Engagement</i>	<i>Membership Elections</i>	<i>Communications</i>	<i>Governance</i>	<i>Administration</i>	<i>Development</i>	<i>Finance and Operations</i>	<i>House Operations</i>	<i>Total</i>
<b>Personnel and related:</b>													
Salaries	\$ 1,324,643	\$ 288,184	\$ 82,388	\$ 223,419	\$ 185,835	\$ 115,962	\$ 87,202	\$ 139,011	\$ 759,298	\$ 751,403	\$ 426,429	\$ 129,261	\$ 4,513,035
Fringe benefits and payroll taxes	288,016	89,976	25,843	65,693	30,720	38,052	5,227	35,048	106,107	176,908	127,837	33,942	1,023,369
Total personnel and related	<u>1,612,659</u>	<u>378,160</u>	<u>108,231</u>	<u>289,112</u>	<u>216,555</u>	<u>154,014</u>	<u>92,429</u>	<u>174,059</u>	<u>865,405</u>	<u>928,311</u>	<u>554,266</u>	<u>163,203</u>	<u>5,536,404</u>
<b>Other:</b>													
Consultants	571,771	17,360	675	15,685	200	1,875	185,916	120	-	36,175	200,538	79,423	1,109,738
Contract Labor	32,620	-	-	83,129	-	7,256	34,490	-	52,720	9,860	2,100	-	222,175
Copying and printing	107,488	92,813	251	23,185	1,788	3,658	-	15,079	665	36,065	679	-	281,671
Fees and honoraria	155,245	-	-	-	-	-	-	-	-	-	-	-	155,245
Insurance	108	5,778	4,160	7,648	-	-	-	-	-	-	71,198	-	88,892
Interest	-	-	-	-	-	-	-	-	-	-	72,112	-	72,112
Meetings and conferences	283,155	9,591	3,956	391,089	71,713	1,280	498	35,503	54,452	37,614	24,954	540	914,345
Occupancy, rent and storage	36,670	-	-	2,849	-	-	-	-	-	-	238	377,398	417,155
Office supplies	34,925	4,227	122	16,456	461	8,582	8,850	1,971	4,341	33,625	104,184	20,589	238,333
Other	19,509	2,464	1,200	13,345	1,143	43,153	1,200	94	3,779	18,316	(2,301)	1,200	103,102
Postage and delivery	43,148	30,670	-	18,514	8,673	13,394	85	12,093	6,706	35,387	1,430	-	170,100
Scholarly stipends	299,974	-	-	-	-	-	-	-	-	-	-	-	299,974
Services	38,218	4,866	1,722	52,086	230	-	16,822	1,449	691	11,044	86,292	315	213,735
Telephone	16,644	19,478	520	2,412	759	1,437	413	436	1,677	1,745	15,518	2,353	63,392
Travel	531,450	19,287	-	32,426	20,932	7,551	-	77,242	68,713	5,610	1,167	-	764,378
Total other	<u>2,170,925</u>	<u>206,534</u>	<u>12,606</u>	<u>658,824</u>	<u>105,899</u>	<u>88,186</u>	<u>248,274</u>	<u>143,987</u>	<u>193,744</u>	<u>225,441</u>	<u>578,109</u>	<u>481,818</u>	<u>5,114,347</u>
Total expenses before depreciation and amortization of land lease	3,783,584	584,694	120,837	947,936	322,454	242,200	340,703	318,046	1,059,149	1,153,752	1,132,375	645,021	10,650,751
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	861,350	861,350
<b>Total expenses</b>	<u><b>\$ 3,783,584</b></u>	<u><b>\$ 584,694</b></u>	<u><b>\$ 120,837</b></u>	<u><b>\$ 947,936</b></u>	<u><b>\$ 322,454</b></u>	<u><b>\$ 242,200</b></u>	<u><b>\$ 340,703</b></u>	<u><b>\$ 318,046</b></u>	<u><b>\$ 1,059,149</b></u>	<u><b>\$ 1,153,752</b></u>	<u><b>\$ 1,132,375</b></u>	<u><b>\$ 1,506,371</b></u>	<u><b>\$ 11,512,101</b></u>

See accompanying notes to the consolidated financial statements.

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

*Consolidated Statement of Functional Expenses*

*For the Year Ended June 30, 2016*

	<i>Projects and Studies</i>	<i>Publications</i>	<i>Archives</i>	<i>Events and Outreach</i>	<i>Member Engagement</i>	<i>Membership Elections</i>	<i>Communications</i>	<i>Governance</i>	<i>Administration</i>	<i>Development</i>	<i>Finance and Operations</i>	<i>House Operations</i>	<i>Total</i>
<b>Personnel and related:</b>													
Salaries	\$ 1,354,348	\$ 267,041	\$ 106,447	\$ 246,065	\$ 133,990	\$ 142,912	\$ 291,751	\$ 101,250	\$ 462,824	\$ 797,989	\$ 446,368	\$ 103,127	\$ 4,454,112
Fringe benefits and payroll taxes	298,591	69,962	41,216	52,041	16,327	45,190	59,439	25,584	67,395	168,293	105,026	30,203	979,267
Total personnel and related	<u>1,652,939</u>	<u>337,003</u>	<u>147,663</u>	<u>298,106</u>	<u>150,317</u>	<u>188,102</u>	<u>351,190</u>	<u>126,834</u>	<u>530,219</u>	<u>966,282</u>	<u>551,394</u>	<u>133,330</u>	<u>5,433,379</u>
<b>Other:</b>													
Consultants	513,112	31,731	1,540	30,138	3,140	18,125	22,200	3,423	411	84,451	241,326	71,832	1,021,429
Contract Labor	12,014	-	-	43,522	544	2,558	-	-	36,097	-	1,698	-	96,433
Copying and printing	95,400	98,786	260	23,216	-	2,837	-	7,362	1,059	27,887	-	-	256,807
Fees and honoraria	236,377	-	-	-	-	-	-	-	-	-	-	-	236,377
Insurance	450	5,778	2,080	6,698	155	-	-	-	-	-	74,780	-	89,941
Interest	-	-	-	-	-	-	-	-	-	-	58,712	-	58,712
Meetings and conferences	380,500	4,280	3,631	472,185	18,389	-	1,275	18,398	67,267	25,991	20,088	480	1,012,484
Occupancy, rent and storage	37,187	-	-	5,809	-	-	-	3,600	-	-	113	363,340	410,049
Office supplies	35,384	4,645	574	24,003	102	4,555	6,274	5,016	6,937	35,129	95,943	18,781	237,343
Other	22,122	2,618	1,200	17,153	563	29,830	3,041	8	9,622	21,329	(12,848)	900	95,538
Postage and delivery	49,489	23,967	151	15,439	1,224	12,603	520	9,959	8,795	30,164	2,185	-	154,496
Scholarly stipends	344,500	-	-	-	-	-	-	-	-	-	-	-	344,500
Services	77,991	2,280	2,636	26,288	2,481	-	25,714	200	2,054	9,048	34,398	2,019	185,109
Telephone	19,273	19,522	521	2,838	223	1,832	570	1,125	1,586	3,070	15,029	2,654	68,243
Travel	539,860	10,187	-	34,663	12,605	-	-	63,927	92,867	3,953	7,012	-	765,074
Total other	<u>2,363,659</u>	<u>203,794</u>	<u>12,593</u>	<u>701,952</u>	<u>39,426</u>	<u>72,340</u>	<u>59,594</u>	<u>113,018</u>	<u>226,695</u>	<u>241,022</u>	<u>538,436</u>	<u>460,006</u>	<u>5,032,535</u>
Total expenses before depreciation and amortization of land lease	4,016,598	540,797	160,256	1,000,058	189,743	260,442	410,784	239,852	756,914	1,207,304	1,089,830	593,336	10,465,914
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	737,927	737,927
<b>Total expenses</b>	<u><b>\$ 4,016,598</b></u>	<u><b>\$ 540,797</b></u>	<u><b>\$ 160,256</b></u>	<u><b>\$ 1,000,058</b></u>	<u><b>\$ 189,743</b></u>	<u><b>\$ 260,442</b></u>	<u><b>\$ 410,784</b></u>	<u><b>\$ 239,852</b></u>	<u><b>\$ 756,914</b></u>	<u><b>\$ 1,207,304</b></u>	<u><b>\$ 1,089,830</b></u>	<u><b>\$ 1,331,263</b></u>	<u><b>\$ 11,203,841</b></u>

See accompanying notes to the consolidated financial statements.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies*

The American Academy of Arts and Sciences (the “Academy”) was established by the Massachusetts legislature on May 4, 1780 and is one of the oldest learned societies in the United States. 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 recognized under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and is generally exempt from Federal and state income taxes on related income. Donors may deduct contributions made to the Academy within the IRC requirements.

The program functions of the Academy include the following:

#### *Programs and Studies*

Consists primarily of studies and other academic endeavors. These projects include: Science, Engineering and Technology; Global Security and International Affairs; The Humanities, Arts and American Institutions; and Education. These projects result in publications, conferences, meetings, outreach, and other related activities.

#### *Publications*

The Publications Office is responsible for all publications that are produced by the Academy: the quarterly journal *Daedalus*, the quarterly magazine the *Bulletin*, major commission reports, project-related occasional papers, other project publications, white papers, special publications, and the monthly newsletter.

#### *Archives*

The Academy Archives preserves, maintains, and makes accessible the Academy’s special collections of papers, books, artifacts, artwork, and audiovisual material, through onsite access to the physical materials and digitally through the Academy’s website.

#### *Events and Outreach*

The Academy regularly holds meetings, lectures, panel discussions, and informal gatherings around the country. Topics are drawn from Academy projects as well as the research and writings of Academy members. Each Fall, the Academy welcomes new members to the Academy at its annual Induction, which includes presentations by new members, briefings on current work, the induction ceremony, and a formal program presentation.

#### *Member Engagement*

The Academy encourages its members to become involved in Academy activities by initiating a number of outreach programs across the country and the world. This effort includes meetings and receptions, solicitation of project ideas from members and an online interface that allows Academy members to interact with other members as part of Academy projects or independently.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies (Continued)*

#### *Membership Elections*

These activities encompass the process of soliciting from the current members nominations of potential new members, organizing the membership committees that review the nominations, the election process, and the notification of election to the new members. The program maintains the membership database and provides information for the online member interface.

#### *Communications*

The department coordinates the external communication of the Academy, including promoting the institutional and program activities, as well as monitoring the social media activity regarding the Academy.

#### *Governance*

Responsible for the governing activities of the Academy, including meetings of the Board of Directors, the Academy Trust, the Academy Council and various governance committees.

#### *Administration*

Directs the affairs of the Academy and includes the President's office and support staff, the Presidential Fellow and other related activities.

#### *Development*

Includes efforts to raise funds for Academy operations, activities and programs. Directs Annual Fund drives, major giving programs, institutional support, capital campaigns, and online fundraising.

#### *Finance and Operations*

Provides the infrastructure for the Academy's operations and includes Finance, Information Technology, Human Resources and Operations.

#### *House and Conference Services*

Directs the maintenance of the Academy's physical plant, including mechanical equipment, grounds and building at the House of the Academy in Cambridge, Massachusetts.

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

Norton's Woods, Inc. (the "Affiliate") represents a wholly-owned for-profit subsidiary created to manage the meetings and events held at the Academy's facility, specifically events held and paid for by outside organizations.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies (Continued)*

#### *Norton's Woods, Inc. (Continued)*

Summarized results of operations of the Affiliate are as follows for the years ended June 30:

	<i>2017</i>	<i>2016</i>
Revenue	\$ 477,062	\$ 560,667
Expenses - direct	<u>(386,905)</u>	<u>(439,704)</u>
Norton's Woods events, net	90,157	120,963
Facility allocations	(532,128)	(465,871)
Overhead allocations	<u>(75,144)</u>	<u>(91,838)</u>
<b>Net loss</b>	<b><u><u>\$ (517,115)</u></u></b>	<b><u><u>\$ (436,746)</u></u></b>

The Affiliate had Federal and state income tax net operating loss carryforwards of approximately \$6,500,000 available to offset future taxable income. These carryforwards expire at various dates through 2036. 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.

The Academy and the Affiliate prepare their consolidated financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

#### *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.

#### *Cash*

The Academy maintains cash in banks which at times may exceed federally insured limits. The Academy monitors its exposure with cash and has not experienced any losses in such accounts. For the purpose of the consolidated statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash. Cash held by investment managers is considered part of investments given the potential of near term investment of such funds.

#### *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.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies (Continued)*

#### *Net Assets (Continued)*

**Funds acting as endowment** 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. No amounts were re-designated from this fund for the years ended June 30, 2017 and 2016.

**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 Note 5).

**Depreciation on permanently restricted endowment** represents the shortfall of fair value of investments to corpus for certain permanently restricted net assets.

**Temporarily restricted** net assets represent amounts received or committed with time, purpose or both time and purpose restrictions. Temporarily restricted net assets also include the Building Fund, which is held as a source for maintaining the property and future capital needs. This category also includes unexpended appreciation on permanently restricted net assets unless otherwise instructed by the donor. Gifts and grants for other purposes paid are invested; however, such returns are not reallocated to such funds and thus are accounted for as unrestricted.

**Permanently restricted** net assets represent amounts which are restricted by donors in perpetuity. Investment returns on such funds are generally expendable to support the organization or specified programs pursuant to a spending policy as guided under state law; however, there are exceptions when stipulated by the donor.

Permanently restricted net assets also include the Academy's beneficial interest in an outside trust for science for which the Academy has the benefits of the economic value of such underlying assets.

#### *Investment Spending Policy*

The Academy's investment and spending policies for endowment assets are designed to provide a predictable source of revenue for operations and the programs to which certain funds are restricted. Endowment assets include permanently restricted net assets, accumulated unspent gains on such that have not been spent, certain funds functioning as endowments and the effect of any depreciation of investment values below corpus over time. Under the board approved policy, 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.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies (Continued)*

#### *Investment Spending Policy (Continued)*

The Academy approves a spending policy each year when it approves its budget with the goal being that the spending policy will be prudent over the long term when considering various matters as required under state law. Massachusetts 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 year ended June 30, 2017, 5.0% and 5.1% of a twelve-quarter average of the fair value of endowment investments was appropriated to support operations and for the years ended June 30, 2017 and 2016, respectively. Funds considered part of the spending policy are as outlined in Note 5.

#### *Fair Value Measurements*

The Academy reports certain items at fair value. 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. Fair value measures include both recurring and non-recurring measures. The Academy's investments and beneficial interest in perpetual trust represent recurring fair value measures, while other fair values are estimated upon receipt, such as grants and pledges.

The fair value framework prioritizes the use of the most objective market data first in determining fair value. The framework also allows the use of the net asset value per share for certain alternative investments that meet certain criteria for reporting on such basis with such amounts being deemed to be a practical expedient in determining fair value. The fair value framework (other than those items valued at net asset value per share) is summarized 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.

Market price is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability. Assets or liabilities with readily available active quoted prices or for which fair value can be measured for actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these assets or liabilities will occur in the near term and that such changes could materially affect the amounts reported in these consolidated financial statements.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies (Continued)*

#### *Investments*

Investments are recorded as per the fair value policies described elsewhere in this section. Accordingly, net gains and losses on investments are recorded in the period in which the changes in the fair value of the underlying security occur.

#### *Beneficial Interest in Perpetual Trust for Science*

The Academy has a beneficial interest in a perpetual trust which supports various scientific initiatives. The trust is reported at fair value which is as determined as per the fair value policies described elsewhere in this section. Distributions from the trust are reported as distribution from beneficial interest in the perpetual trust for science to the extent deemed an ordinary distribution. The Academy's interest is in the trust and not its underlying assets which thus requires a Level 3 fair value method to be used notwithstanding the pricing transparency of the assets within the trust. Distributions are at the discretion of the fund's trustees, who are separate from the Academy's board.

#### *Gifts and Grant Support and Associated Grants and Pledges*

Gifts and grants are reported as revenue and support when received or verifiably promised at estimated fair value as per the fair value policies described elsewhere in this section. Such amounts are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Under the fair value method, estimates of the timing and the amount of expected actual cash flows are used in concert with present value techniques to estimate the fair value of such promise when received using a rate adjusted discount rate which is considered a Level 3 fair value method. Management uses practical estimates to arrive at the amounts and considers its method a reasonable approach in accounting for these items. Restricted amounts are reclassified to unrestricted net assets upon satisfaction of the donor restriction, the passage of time or both. In most cases, releases are based on costs incurred associated with the underlying restricted purpose of the funding. Restrictions related to long-lived assets are considered satisfied at the time the asset is acquired. Grants and pledges receivable are reviewed annually, and an allowance for uncollectible amounts due is recorded if amounts are deemed as risky or to be uncollectible. There was no allowance at June 30, 2017 and 2016.

#### *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. Purchases, sales and insurance recoveries when applicable are considered investing items in the consolidated statements of cash flows.

#### *Other Revenue Recognition Policies*

Annual appeal contributions and membership dues are recognized as revenue when received as management has concluded that such items have the attributes of contributions rather than an exchange of value in return. Sales revenue for publications and house rentals are recorded when earned.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies (Continued)*

#### *Functional Allocation of Expenses*

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 GAAP.

#### *Property and Equipment and Depreciation*

Property and equipment are recorded at cost or if donated at fair value when received using Level 3 inputs. 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:

	<i>Estimated Useful Life</i>
Building	100 Years
Building improvements	5 - 50 Years
Furniture and equipment	3 - 25 Years

#### *Estimates*

The preparation of consolidated financial statements in accordance with 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. Significant estimates include the realization of grants and pledges, the fair value of certain investments, the fair value of beneficial interest in perpetual trust for science, decisions over what to capitalize and the related useful lives of such assets, functional expense allocations and releases from donor restriction.

#### *Income Taxes*

The Academy accounts for uncertainty in income taxes in that a recognition threshold and measurement standard is applied to a tax position taken or expected to be taken in a tax return. The Academy has determined that its tax status as an exempt entity and its determinations to classify income as related or unrelated as its only significant tax positions; however, the Academy has determined that such tax positions do not result in an uncertainty requiring recognition. The Academy is not currently under examination by any taxing jurisdiction and its information returns are generally subject to examination for three years following the date filed.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Operations, Nonprofit Status and Significant Accounting Policies (Continued)*

#### *Reclassifications*

Certain reclassifications have been made to the prior year's presentation in order to conform with the current year's presentation.

#### *Changes in Net Assets from Operations*

Revenues received and expenses incurred in conducting the programs and services of the Academy are presented in the consolidated financial statements as operating activities. Operating activities also include investment earnings designated for operations and programs.

#### *Subsequent Events*

The Academy evaluated subsequent events through November 2, 2017, the date these financial statements were issued. With the exception of the matter discussed below, there were no material subsequent events that required recognition or additional disclosure in these financial statements. Subsequent to the end of the fiscal year 2017, a vendor informed the Academy that they had not been billing the Academy in accordance with a provision of a vendor's 2004 contract. The two parties are in discussion to resolve this matter and the Academy anticipates that it will incur expenses related to this matter. However, the Academy is not able to make a meaningful estimate of the expense, although the amount is not expected to be material.

### *Note 2 - 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:

	<i>2017</i>	<i>2016</i>
Due within one year	\$ 3,066,029	\$ 1,043,375
Due within one to five years	<u>5,565,000</u>	<u>1,010,000</u>
	8,631,029	2,053,375
Less: discount to present value (2.0%)	<u>212,876</u>	<u>36,234</u>
<b>Total grants and pledges receivable, net</b>	<b><u><u>\$ 8,418,153</u></u></b>	<b><u><u>\$ 2,017,141</u></u></b>

The Academy has been awarded conditional promises to give of approximately \$5,555,000 and \$1,795,000 as of June 30, 2017 and 2016, respectively. These promises have not been recorded as assets or revenues until such conditions have been met.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments*

The following table presents the fair value measurements of the Academy's investments by level within the valuation framework as of June 30, 2017:

	<i>Total</i>	<i>Investments Measured at NAV</i>	<i>Level 1</i>	<i>Level 3</i>
Investments:				
Cash and equivalents	\$ 5,224,437	\$ -	\$ 5,224,437	\$ -
Equities:				
Global emerging markets mutual fund	6,434,224	-	6,434,224	-
Global markets mutual fund	11,823,812	-	11,823,812	-
Domestic markets mutual fund	17,098,038	-	17,098,038	-
Fixed income:				
Government mutual fund	2,397,163	-	2,397,163	-
Alternatives:				
Multi-strategy fund	8,302,477	8,302,477	-	-
Hedge fund - domestic equities	6,312,269	6,312,269	-	-
Private equity fund	3,193,562	3,193,562	-	-
Total investments	<u>60,785,982</u>	<u>17,808,308</u>	<u>42,977,674</u>	<u>-</u>
Beneficial interest in perpetual trust for science	<u>2,809,091</u>	<u>-</u>	<u>-</u>	<u>2,809,091</u>
	<u><b>\$ 63,595,073</b></u>	<u><b>\$ 17,808,308</b></u>	<u><b>\$ 42,977,674</b></u>	<u><b>\$ 2,809,091</b></u>

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 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, 2016:

	<i>Total</i>	<i>Investments Measured at NAV</i>	<i>Level 1</i>	<i>Level 3</i>
Investments:				
Cash and equivalents	\$ 4,122,280	\$ -	\$ 4,122,280	\$ -
Equities:				
Global emerging markets mutual fund	5,341,561	-	5,341,561	-
Global markets mutual fund	10,428,526	-	10,428,526	-
Domestic markets mutual fund	18,662,325	-	18,662,325	-
Fixed income:				
Government mutual fund	2,315,279	-	2,315,279	-
Alternatives:				
Multi-strategy fund	5,085,489	5,085,489	-	-
Hedge fund - domestic equities	5,486,608	5,486,608	-	-
Private equity fund	2,555,392	2,555,392	-	-
Total investments	<u>53,997,460</u>	<u>13,127,489</u>	<u>40,869,971</u>	<u>-</u>
Beneficial interest in perpetual trust for science	<u>2,713,792</u>	<u>-</u>	<u>-</u>	<u>2,713,792</u>
	<u><b>\$ 56,711,252</b></u>	<u><b>\$ 13,127,489</b></u>	<u><b>\$ 40,869,971</b></u>	<u><b>\$ 2,713,792</b></u>

For investments accounted for on the NAV basis, management has no plans to liquidate such at other than NAV per share. The Academy's investments accounted for on a NAV basis are redeemable on notice of 90 days or less.

Unfunded capital commitments were \$2,472,000 and \$2,660,000 as of June 30, 2017 and 2016, respectively.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments (Continued)*

The changes in assets measured at fair value for which the Academy has used Level 3 inputs to determine fair value as of June 30 are as follows:

	<i>Beneficial Interest in Perpetual Trust for Science</i>	
	<i>2017</i>	<i>2016</i>
Beginning of year	\$ 2,713,792	\$ 2,917,651
Distribution from trust	(125,688)	(139,420)
Unrealized gains (losses)	220,987	(64,439)
Total increase (decrease) in beneficial interest in perpetual trust for science	<u>95,299</u>	<u>(203,859)</u>
<b>End of year</b>	<b><u>\$ 2,809,091</u></b>	<b><u>\$ 2,713,792</u></b>

The following schedule summarizes the investment return and its classification in the consolidated statements of activities and changes in net assets for the years ended June 30:

	<i>2017</i>	<i>2016</i>
Investment income, net - operating	\$ 185,038	\$ 138,271
Investment income, net - nonoperating	675,415	640,412
Realized and unrealized gains (losses), net	<u>6,886,388</u>	<u>(1,594,680)</u>
Total investment return (loss)	7,746,841	(815,997)
Less: spending policy	<u>(1,910,647)</u>	<u>(1,784,474)</u>
<b>Total investment return (loss) net of spending policy</b>	<b><u>\$ 5,836,194</u></b>	<b><u>\$ (2,600,471)</u></b>

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 4 - Property and Equipment*

Property and equipment consist of the following at June 30:

	<i>2017</i>	<i>2016</i>
Building and improvements	\$ 13,774,657	\$ 13,444,414
Electronic systems improvements	1,277,384	957,229
Furniture and equipment	<u>3,496,477</u>	<u>2,976,748</u>
	18,548,518	17,378,391
Less: accumulated depreciation	<u>8,631,693</u>	<u>7,778,425</u>
	<u><b>\$ 9,916,825</b></u>	<u><b>\$ 9,599,966</b></u>

Depreciation expense was \$853,270 and \$729,846 for the years ended June 30, 2017 and 2016, respectively.

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 \$8,081 for the years ended June 30, 2017 and 2016. The balance of the prepaid lease is as follows as of June 30:

	<i>2017</i>	<i>2016</i>
Prepayment	\$ 800,000	\$ 800,000
Amortized to date	<u>313,805</u>	<u>305,724</u>
	<u><b>\$ 486,195</b></u>	<u><b>\$ 494,276</b></u>

### *Note 5 - Endowments*

At June 30, 2017, the Academy's endowment was comprised of the following:

	<u><i>Unrestricted</i></u>	<u><i>Temporarily Restricted</i></u>	<u><i>Permanently Restricted</i></u>	<u><i>Total Endowment</i></u>
Board designated	\$ 5,042,838	\$ -	\$ -	\$ 5,042,838
Donor restricted	<u>(442,887)</u>	<u>5,735,354</u>	<u>35,836,525</u>	<u>41,128,992</u>
	4,599,951	5,735,354	35,836,525	46,171,830
Receivable	<u>-</u>	<u>-</u>	<u>1,459,321</u>	<u>1,459,321</u>
<b>Total</b>	<u><b>\$ 4,599,951</b></u>	<u><b>\$ 5,735,354</b></u>	<u><b>\$ 37,295,846</b></u>	<u><b>\$ 47,631,151</b></u>

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 5 - Endowments (Continued)*

At June 30, 2016, the Academy's endowment was comprised of the following:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total Endowment</i>
Board designated	\$ 4,674,237	\$ -	\$ -	\$ 4,674,237
Donor restricted	(1,007,956)	3,904,966	33,018,044	35,915,054
	3,666,281	3,904,966	33,018,044	40,589,291
Receivable	-	-	388,388	388,388
<b>Total</b>	<b>\$ 3,666,281</b>	<b>\$ 3,904,966</b>	<b>\$ 33,406,432</b>	<b>\$ 40,977,679</b>

Changes in endowment net assets by class are as follows for 2017:

	<i>Unrestricted</i>		<i>Donor Restricted</i>			
	<i>Depreciation on Permanently Restricted</i>	<i>Special Endowment Funds</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total Donor Restricted</i>	<i>Total Endowment</i>
Endowment net assets, June 30, 2016	\$ (1,007,956)	\$ 4,674,237	\$ 3,904,966	\$ 33,018,044	\$ 36,923,010	\$ 40,589,291
Investment return:						
Investment income	65,759	76,541	356,266	91,758	448,024	590,324
Net realized/unrealized gains	524,373	584,983	3,138,664	758,644	3,897,308	5,006,664
Total investment return	590,132	661,524	3,494,930	850,402	4,345,332	5,596,988
Contributions	-	-	-	2,248,309	2,248,309	2,248,309
Endowment transfers	175,765	-	(175,765)	-	(175,765)	-
Appropriation of endowment assets for expenditure	(200,828)	(292,923)	(1,488,777)	(280,230)	(1,769,007)	(2,262,758)
<b>Endowment net assets, June 30, 2017</b>	<b>\$ (442,887)</b>	<b>\$ 5,042,838</b>	<b>\$ 5,735,354</b>	<b>\$ 35,836,525</b>	<b>\$ 41,571,879</b>	<b>\$ 46,171,830</b>

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 5 - Endowments (Continued)*

Changes in endowment net assets by class are as follows for 2016:

	<u>Unrestricted</u>		<u>Donor Restricted</u>			<u>Total</u> <u>Endowment</u>
	<u>Depreciation</u> <u>on</u> <u>Permanently</u> <u>Restricted</u>	<u>Special</u> <u>Endowment</u> <u>Funds</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total Donor</u> <u>Restricted</u>	
Endowment net assets, June 30, 2015	\$ (573,486)	\$ 4,875,784	\$ 5,119,256	\$ 28,148,772	\$ 33,268,028	\$ 37,570,326
Investment return:						
Investment income	148,591	71,987	255,496	86,852	342,348	562,926
Net realized/unrealized gains	(295,967)	(142,946)	(464,482)	(172,987)	(637,469)	(1,076,382)
Total investment return	(147,376)	(70,959)	(208,986)	(86,135)	(295,121)	(513,456)
Contributions	-	85,795	-	5,231,100	5,231,100	5,316,895
Endowment transfers	184,593	-	(184,593)	-	(184,593)	-
Appropriation of endowment assets for expenditure	(471,687)	(216,383)	(820,711)	(275,693)	(1,096,404)	(1,784,474)
<b>Endowment net assets, June 30, 2016</b>	<b><u>\$ (1,007,956)</u></b>	<b><u>\$ 4,674,237</u></b>	<b><u>\$ 3,904,966</u></b>	<b><u>\$ 33,018,044</u></b>	<b><u>\$ 36,923,010</u></b>	<b><u>\$ 40,589,291</u></b>

### *Note 6 - Note Payable*

The Academy has variable tax exempt notes outstanding which are secured by a letter of credit agreement. The interest rate was 0.858% and 0.481% as of June 30, 2017 and 2016, respectively. Principal payments are due in accordance to a fixed amortization schedule with a final due date of July, 2032 at which time the Academy will be required to make a final payment of \$256,140.

The Academy's letter of credit reimbursement agreement is uncollateralized with an exposure equal to the balance of the note, plus interest. The agreement expires on June 30, 2020 and provides for a bank fee and other fees of approximately 2% per year. Such cost is considered part of interest expense.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 6 - Note Payable (Continued)*

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

<i>Year Ending</i> <i>June 30,</i>	
2018	\$ 113,290
2019	120,090
2020	127,290
2021	134,930
2022	143,030
Thereafter	<u>2,024,692</u>
	<u><u>\$ 2,663,322</u></u>

Under the note agreement, the Academy is required to hold approximately \$30,000 of funds with a trustee pursuant to the note agreement with such amounts being included in other assets. Such account had a balance of approximately \$44,000 at June 30, 2017 and 2016.

### *Note 7 - Retirement Plans*

The Academy has a defined contribution plan (“DC Plan”) under IRC Section 403(b) covering all eligible employees. Employees are eligible to participate after reaching the age of 21 and completing one consecutive year of service with the Academy. The Academy contributes a discretionary amount equal to 10% of each eligible employee’s compensation to the DC Plan. Contributions to the DC Plan fully vest after six years. The Academy’s contributions to the DC Plan were approximately \$381,000 and \$350,000 for the years ended June 30, 2017 and 2016, respectively.

The Academy also has a tax deferral annuity plan (“TDA Plan”) under IRC Section 403(b) covering all eligible employees. Employees are immediately eligible to participate in the TDA Plan. Eligible employees are able to contribute a portion of their compensation as a pre-tax deferral. An eligible employee’s deferrals, and related earnings, are immediately fully vested and cannot be forfeited. The Academy does not contribute to the TDA Plan.