



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

**June 30, 2018 and 2017**



# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Consolidated Financial Statements*

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## *Independent Auditors' Report*

Board of Directors  
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, 2018 and 2017, 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, 2018 and 2017, 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.

*Mayer Hoffmann McCann P.C.*

November 1, 2018  
Boston, Massachusetts

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Consolidated Statements of Financial Position*

<b>Assets</b>	<i>June 30,</i>	
	<b>2018</b>	<b>2017</b>
Cash	\$ 298,498	\$ 212,765
Grants and pledges receivable, net	10,595,509	8,418,153
Other assets	237,549	219,333
Investments	66,584,120	60,785,982
Beneficial interest in perpetual trust for science	2,883,235	2,809,091
Prepaid land lease, net	478,114	486,195
Property and equipment, net	<u>9,562,324</u>	<u>9,916,825</u>
<b>Total assets</b>	<b><u>\$ 90,639,349</u></b>	<b><u>\$ 82,848,344</u></b>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 401,064	\$ 500,473
Note payable	<u>2,548,902</u>	<u>2,663,322</u>
<b>Total liabilities</b>	<b><u>2,949,966</u></b>	<b><u>3,163,795</u></b>
 Net assets:		
Unrestricted:		
Special operations fund	3,340,493	2,431,930
Funds acting as endowment	7,790,668	6,814,269
Property and equipment	7,516,758	7,766,050
Special endowment funds	5,307,963	5,042,838
Depreciation on permanently restricted endowment	<u>(283,108)</u>	<u>(442,887)</u>
Total unrestricted	<u>23,672,774</u>	<u>21,612,200</u>
 Temporarily restricted:		
Programs and projects	14,397,493	12,232,058
Building fund	2,753,194	2,642,473
Donor-restricted endowment appreciation	<u>4,273,925</u>	<u>3,092,881</u>
Total temporarily restricted	<u>21,424,612</u>	<u>17,967,412</u>
 Permanently restricted:		
Donor-restricted endowment	39,708,762	37,295,846
Beneficial interest in perpetual trust for science	<u>2,883,235</u>	<u>2,809,091</u>
Total permanently restricted	<u>42,591,997</u>	<u>40,104,937</u>
<b>Total net assets</b>	<b><u>87,689,383</u></b>	<b><u>79,684,549</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 90,639,349</u></b>	<b><u>\$ 82,848,344</u></b>

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

**Consolidated Statement of Activities and Changes in Net Assets**

*For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2018 Total</b>	<b>2017 Total</b>
<b>Revenues:</b>					
Support:					
Gifts and grants	\$ 1,730,000	\$ 3,328,439	\$ -	\$ 5,058,439	\$ 9,202,198
Annual appeal	1,933,299	-	-	1,933,299	1,746,979
University affiliates	950,000	-	-	950,000	922,500
Membership dues	1,277,371	-	-	1,277,371	1,308,125
Distribution from beneficial interest in perpetual trust for science	-	118,440	-	118,440	125,688
Investment income	127,982	8,964	-	136,946	185,038
Other operating income	249,311	-	-	249,311	390,151
Net assets released from purpose restrictions	<u>4,113,502</u>	<u>(4,113,502)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support	<u>10,381,465</u>	<u>(657,659)</u>	<u>-</u>	<u>9,723,806</u>	<u>13,880,679</u>
Investment return designated for operations and programs	<u>1,347,054</u>	<u>731,086</u>	<u>-</u>	<u>2,078,140</u>	<u>1,910,647</u>
<b>Total revenues</b>	<b><u>11,728,519</u></b>	<b><u>73,427</u></b>	<b><u>-</u></b>	<b><u>11,801,946</u></b>	<b><u>15,791,326</u></b>
<b>Expenses:</b>					
Projects and studies	2,946,572	-	-	2,946,572	3,783,584
Publications	791,827	-	-	791,827	584,694
Archives	159,557	-	-	159,557	120,837
Events and outreach	1,021,643	-	-	1,021,643	947,936
Member engagement	364,999	-	-	364,999	322,454
Membership elections	261,755	-	-	261,755	242,200
Communications	529,040	-	-	529,040	340,703
Governance	509,056	-	-	509,056	318,046
Administration	1,100,534	-	-	1,100,534	1,059,149
Development	1,257,889	-	-	1,257,889	1,153,752
Finance and operations	973,370	-	-	973,370	1,132,375
House and conference services	<u>1,555,631</u>	<u>-</u>	<u>-</u>	<u>1,555,631</u>	<u>1,506,371</u>
<b>Total operating expenses</b>	<b><u>11,471,873</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>11,471,873</u></b>	<b><u>11,512,101</u></b>
<b>Changes in net assets from operations</b>	<b><u>256,646</u></b>	<b><u>73,427</u></b>	<b><u>-</u></b>	<b><u>330,073</u></b>	<b><u>4,279,225</u></b>
<b>Other changes:</b>					
Contributions to endowment	-	-	2,161,782	2,161,782	3,319,242
Investment returns					
Interest and dividends, net	233,967	461,167	94,688	789,822	675,415
Realized and unrealized gains	1,802,139	2,239,969	448,045	4,490,153	6,886,388
Less - spending policy	(386,289)	(1,400,252)	(291,599)	(2,078,140)	(1,910,647)
Endowment adjustment	9,119	(9,119)	-	-	-
Capital grants	-	2,237,000	-	2,237,000	125,000
Net assets released from capital restrictions	144,992	(144,992)	-	-	-
Increase in beneficial interest in perpetual trust for science	<u>-</u>	<u>-</u>	<u>74,144</u>	<u>74,144</u>	<u>95,299</u>
Total other changes	<u>1,803,928</u>	<u>3,383,773</u>	<u>2,487,060</u>	<u>7,674,761</u>	<u>9,190,697</u>
<b>Changes in net assets</b>	<b><u>2,060,574</u></b>	<b><u>3,457,200</u></b>	<b><u>2,487,060</u></b>	<b><u>8,004,834</u></b>	<b><u>13,469,922</u></b>
Net assets, beginning of year	<u>21,612,200</u>	<u>17,967,412</u>	<u>40,104,937</u>	<u>79,684,549</u>	<u>66,214,627</u>
<b>Net assets, end of year</b>	<b><u>\$ 23,672,774</u></b>	<b><u>\$ 21,424,612</u></b>	<b><u>\$ 42,591,997</u></b>	<b><u>\$ 87,689,383</u></b>	<b><u>\$ 79,684,549</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*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
<b>Revenues:</b>				
Support:				
Gifts and grants	\$ 751,917	\$ 8,450,281	\$ -	\$ 9,202,198
Annual appeal	1,746,979	-	-	1,746,979
University affiliates	922,500	-	-	922,500
Membership dues	1,308,125	-	-	1,308,125
Distribution from beneficial interest in perpetual trust for science	-	125,688	-	125,688
Investment income	173,654	11,384	-	185,038
Other operating income	270,213	119,938	-	390,151
Net assets released from purpose restrictions	4,451,423	(4,451,423)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total support	9,624,811	4,255,868	-	13,880,679
Investment return designated for operations and programs	1,316,090	594,557	-	1,910,647
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total revenues</b>	<b>10,940,901</b>	<b>4,850,425</b>	<b>-</b>	<b>15,791,326</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenses:</b>				
Projects and studies	3,783,584	-	-	3,783,584
Publications	584,694	-	-	584,694
Archives	120,837	-	-	120,837
Events and outreach	947,936	-	-	947,936
Member engagement	322,454	-	-	322,454
Membership elections	242,200	-	-	242,200
Communications	340,703	-	-	340,703
Governance	318,046	-	-	318,046
Administration	1,059,149	-	-	1,059,149
Development	1,153,752	-	-	1,153,752
Finance and operations	1,132,375	-	-	1,132,375
House and conference services	1,506,371	-	-	1,506,371
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>11,512,101</b>	<b>-</b>	<b>-</b>	<b>11,512,101</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Changes in net assets from operations</b>	<b>(571,200)</b>	<b>4,850,425</b>	<b>-</b>	<b>4,279,225</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Other changes:</b>				
Contributions to endowment	-	-	3,319,242	3,319,242
Investment returns				
Interest and dividends, net	227,391	356,266	91,758	675,415
Realized and unrealized gains	2,989,081	3,138,663	758,644	6,886,388
Less - spending policy	(421,640)	(1,208,777)	(280,230)	(1,910,647)
Endowment adjustment	175,765	(175,765)	-	-
Capital grants	-	125,000	-	125,000
Net assets released from capital restrictions	591,374	(591,374)	-	-
Decrease in beneficial interest in perpetual trust for science	-	-	95,299	95,299
	<hr/>	<hr/>	<hr/>	<hr/>
Total other changes	3,561,971	1,644,013	3,984,713	9,190,697
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Changes in net assets</b>	<b>2,990,771</b>	<b>6,494,438</b>	<b>3,984,713</b>	<b>13,469,922</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets, beginning of year	18,621,429	11,472,974	36,120,224	66,214,627
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net assets, end of year</b>	<b>\$21,612,200</b>	<b>\$17,967,412</b>	<b>\$40,104,937</b>	<b>\$79,684,549</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>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 8,004,834	\$13,469,922
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Realized and unrealized gains on investments	(4,490,153)	(6,886,388)
Increase in beneficial interest in perpetual trust for science	(74,144)	(95,299)
Capital grants	(2,237,000)	(125,000)
Contributions to endowment	(2,161,782)	(3,319,242)
Depreciation and amortization	926,036	861,350
Changes in operating assets and liabilities:		
Other assets	(18,216)	178,139
Grants and pledges receivable	(2,577,356)	(5,330,079)
Accounts payable and accrued expenses	(99,409)	25,917
	<u>(2,727,190)</u>	<u>(1,220,680)</u>
<b>Net cash used in operating activities</b>	<b>(2,727,190)</b>	<b>(1,220,680)</b>
<b>Cash flows from investing activities:</b>		
Cash paid for purchases of investments	(3,392,744)	(11,808,335)
Cash received from sale of investments	2,084,759	11,906,201
Property and equipment acquisitions	(563,454)	(1,170,128)
	<u>(1,871,439)</u>	<u>(1,072,262)</u>
<b>Net cash used in investing activities</b>	<b>(1,871,439)</b>	<b>(1,072,262)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on note payable	(114,420)	(107,950)
Cash contributions to endowment	2,561,782	2,248,309
Capital grants	2,237,000	125,000
	<u>4,684,362</u>	<u>2,265,359</u>
<b>Net cash provided by financing activities</b>	<b>4,684,362</b>	<b>2,265,359</b>
<b>Net change in cash</b>	<b>85,733</b>	<b>(27,583)</b>
Cash, beginning of year	212,765	240,348
<b>Cash, end of year</b>	<b>\$ 298,498</b>	<b>\$ 212,765</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 82,629</u>	<u>\$ 72,112</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, 2018*

*(With Comparative Totals for 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>2018 Total</i>	<i>2017 Total</i>
<b>Personnel and related:</b>														
Salaries	\$ 1,399,826	\$ 292,930	\$ 124,582	\$ 312,087	\$ 190,489	\$ 137,892	\$ 348,382	\$ 160,753	\$ 849,258	\$ 810,884	\$ 445,802	\$ 135,333	\$ 5,208,218	\$ 4,513,035
Fringe benefits and payroll taxes	297,123	94,060	24,646	79,557	35,040	44,231	61,950	33,580	138,886	194,623	46,606	33,510	1,083,812	1,023,369
<b>Total personnel and related</b>	<b>1,696,949</b>	<b>386,990</b>	<b>149,228</b>	<b>391,644</b>	<b>225,529</b>	<b>182,123</b>	<b>410,332</b>	<b>194,333</b>	<b>988,144</b>	<b>1,005,507</b>	<b>492,408</b>	<b>168,843</b>	<b>6,292,030</b>	<b>5,536,404</b>
<b>Other:</b>														
Consultants	352,044	19,281	560	8,545	400	5,125	48,350	84,613	-	57,761	81,947	72,270	730,896	1,109,738
Contract Labor	15,705	-	-	2,244	-	3,483	12,261	656	-	-	11,922	-	46,271	222,175
Copying and printing	111,562	85,236	259	16,878	750	3,198	393	14,696	-	42,810	456	-	276,238	281,671
Fees and honoraria	23,107	-	-	-	-	-	-	-	-	-	541	-	23,648	155,245
Insurance	-	5,893	2,080	6,899	-	-	-	-	-	-	77,783	-	92,655	88,892
Interest	-	-	-	-	-	-	-	-	-	-	82,629	-	82,629	72,112
Meetings and conferences	172,081	417	1,600	462,416	74,698	618	168	17,343	49,966	26,741	21,397	1,603	829,048	914,345
Occupancy, rent and storage	28,800	-	-	9,283	9,600	-	-	-	-	-	-	364,046	411,729	417,155
Office supplies	32,457	5,943	235	17,299	2,516	6,192	21,164	3,278	2,601	35,483	128,980	17,244	273,392	238,333
Other	21,754	2,438	1,200	14,534	1,360	39,251	1,800	15	3,452	20,159	6,359	1,920	114,242	103,102
Postage and delivery	66,072	265,989	19	11,891	2,777	16,526	3	14,990	5,571	41,921	4,164	1	429,924	170,100
Scholarly stipends	-	-	-	-	-	-	-	-	-	-	-	-	-	299,974
Services	55,129	1,685	2,875	51,815	210	159	10,996	65,473	552	12,509	51,148	991	253,542	213,735
Telephone	18,954	3,115	1,501	2,549	1,649	3,114	20,984	700	4,275	4,721	8,740	2,677	72,979	63,392
Travel	351,958	14,840	-	25,646	45,510	1,966	2,589	112,959	45,973	10,277	4,896	-	616,614	764,378
<b>Total other</b>	<b>1,249,623</b>	<b>404,837</b>	<b>10,329</b>	<b>629,999</b>	<b>139,470</b>	<b>79,632</b>	<b>118,708</b>	<b>314,723</b>	<b>112,390</b>	<b>252,382</b>	<b>480,962</b>	<b>460,752</b>	<b>4,253,807</b>	<b>5,114,347</b>
<b>Total expenses before depreciation and amortization of land lease</b>	<b>2,946,572</b>	<b>791,827</b>	<b>159,557</b>	<b>1,021,643</b>	<b>364,999</b>	<b>261,755</b>	<b>529,040</b>	<b>509,056</b>	<b>1,100,534</b>	<b>1,257,889</b>	<b>973,370</b>	<b>629,595</b>	<b>10,545,837</b>	<b>10,650,751</b>
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	926,036	926,036	861,350
<b>Total expenses</b>	<b>\$ 2,946,572</b>	<b>\$ 791,827</b>	<b>\$ 159,557</b>	<b>\$ 1,021,643</b>	<b>\$ 364,999</b>	<b>\$ 261,755</b>	<b>\$ 529,040</b>	<b>\$ 509,056</b>	<b>\$ 1,100,534</b>	<b>\$ 1,257,889</b>	<b>\$ 973,370</b>	<b>\$ 1,555,631</b>	<b>\$ 11,471,873</b>	<b>\$ 11,512,101</b>

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*

	<b>Projects and Studies</b>	<b>Publications</b>	<b>Archives</b>	<b>Events and Outreach</b>	<b>Member Engagement</b>	<b>Membership Elections</b>	<b>Communications</b>	<b>Governance</b>	<b>Administration</b>	<b>Development</b>	<b>Finance and Operations</b>	<b>House Operations</b>	<b>Total</b>
<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
<b>Total personnel and related</b>	<b>1,612,659</b>	<b>378,160</b>	<b>108,231</b>	<b>289,112</b>	<b>216,555</b>	<b>154,014</b>	<b>92,429</b>	<b>174,059</b>	<b>865,405</b>	<b>928,311</b>	<b>554,266</b>	<b>163,203</b>	<b>5,536,404</b>
<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
<b>Total other</b>	<b>2,170,925</b>	<b>206,534</b>	<b>12,606</b>	<b>658,824</b>	<b>105,899</b>	<b>88,186</b>	<b>248,274</b>	<b>143,987</b>	<b>193,744</b>	<b>225,441</b>	<b>578,109</b>	<b>481,818</b>	<b>5,114,347</b>
<b>Total expenses before depreciation and amortization of land lease</b>	<b>3,783,584</b>	<b>584,694</b>	<b>120,837</b>	<b>947,936</b>	<b>322,454</b>	<b>242,200</b>	<b>340,703</b>	<b>318,046</b>	<b>1,059,149</b>	<b>1,153,752</b>	<b>1,132,375</b>	<b>645,021</b>	<b>10,650,751</b>
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	861,350	861,350
<b>Total expenses</b>	<b>\$ 3,783,584</b>	<b>\$ 584,694</b>	<b>\$ 120,837</b>	<b>\$ 947,936</b>	<b>\$ 322,454</b>	<b>\$ 242,200</b>	<b>\$ 340,703</b>	<b>\$ 318,046</b>	<b>\$ 1,059,149</b>	<b>\$ 1,153,752</b>	<b>\$ 1,132,375</b>	<b>\$ 1,506,371</b>	<b>\$ 11,512,101</b>

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 4,950 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; Humanities, Arts and Culture; Education and the Development of Knowledge; and American Institutions, Society and the Public Good. 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:

	2018	2017
Revenue	\$ 555,549	\$ 477,062
Expenses - direct	<u>(478,160)</u>	<u>(386,905)</u>
Norton's Woods events, net	77,389	90,157
Facility allocations	(551,422)	(532,128)
Overhead allocations	<u>(70,581)</u>	<u>(75,144)</u>
<b>Net loss</b>	<b><u>\$ (544,614)</u></b>	<b><u>\$ (517,115)</u></b>

The Affiliate had Federal and state income tax net operating loss carryforwards of approximately \$7,000,000 available to offset future taxable income. Of these carryforwards, approximately \$6,500,000 expire at various dates through 2036 and approximately \$500,000 can be carried forward indefinitely. 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 its cash in bank deposit accounts 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.

# 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**

**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.

**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, 2018 and 2017.

**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.

# 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***

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.

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, 5.0% of a twelve-quarter average of the fair value of endowment investments was appropriated to support operations and for the years ended June 30, 2018 and 2017. 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.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

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

#### ***Fair Value Measurements (Continued)***

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.

#### ***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 uncollectable. There was no allowance at June 30, 2018 and 2017.



# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

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

#### ***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. Gifts received for capital expenditure purposes are considered other changes.

#### ***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 the straight-line basis over the following estimated useful lives:

	<b><i>Estimated Useful Life</i></b>
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*

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

#### ***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.

#### ***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 1, 2018, the date these financial statements were issued.

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### **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:

	<b>2018</b>	<b>2017</b>
Due within one year	\$ 3,967,700	\$ 3,066,029
Due within one to five years	6,849,760	5,565,000
	10,817,460	8,631,029
Less: discount to present value (2.0%)	221,951	212,876
	<b>\$ 10,595,509</b>	<b>\$ 8,418,153</b>

The Academy has been awarded conditional promises to give of approximately \$3,340,000 and \$5,555,000 as of June 30, 2018 and 2017, respectively. These promises have not been recorded as assets or revenues until such conditions have been met.

### **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, 2018:

	<b>Total</b>	<b>Investments Measured at NAV</b>	<b>Level 1</b>	<b>Level 3</b>
Investments:				
Cash and equivalents	\$ 7,452,622	\$ -	\$ 7,452,622	\$ -
Equities:				
Global emerging markets mutual fund	6,250,366	-	6,250,366	-
Global markets mutual fund	12,686,075	-	12,686,075	-
Domestic markets mutual fund	17,057,850	-	17,057,850	-
Fixed income:				
Government mutual fund	2,379,776	-	2,379,776	-
Alternatives:				
Multi-strategy fund	9,056,982	9,056,982	-	-
Hedge fund - domestic equities	7,908,781	7,908,781	-	-
Private equity fund	3,791,668	3,791,668	-	-
Total investments	66,584,120	20,757,431	45,826,689	-
Beneficial interest in perpetual trust for science	2,883,235	-	-	2,883,235
	<b>\$ 69,467,355</b>	<b>\$ 20,757,431</b>	<b>\$ 45,826,689</b>	<b>\$ 2,883,235</b>

# 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, 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>
	<b><u>\$ 63,595,073</u></b>	<b><u>\$ 17,808,308</u></b>	<b><u>\$ 42,977,674</u></b>	<b><u>\$ 2,809,091</u></b>

At June 30, 2018 and 2017, \$57,050,384 and \$52,302,343, respectively, of the investments measured at NAV have redemption periods of 90 days or less and \$9,533,736 and \$8,483,639, respectively, have redemption periods of over 90 days.

Unfunded capital commitments were \$2,173,000 and \$2,472,000 as of June 30, 2018 and 2017, 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:

	<b>Beneficial Interest in Perpetual Trust for Science</b>	
	<b>2018</b>	<b>2017</b>
Beginning of year	\$ 2,809,091	\$ 2,713,792
Distribution from trust	(118,440)	(125,688)
Unrealized gains	<u>192,584</u>	<u>220,987</u>
Total increase in beneficial interest in perpetual trust for science	<u>74,144</u>	<u>95,299</u>
<b>End of year</b>	<b><u>\$ 2,883,235</u></b>	<b><u>\$ 2,809,091</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:

	<b>2018</b>	<b>2017</b>
Investment income, net - operating	\$ 136,946	\$ 185,038
Investment income, net - nonoperating	789,822	675,415
Realized and unrealized gains, net	<u>4,490,153</u>	<u>6,886,388</u>
Total investment return	5,416,921	7,746,841
Less: spending policy	<u>(2,078,140)</u>	<u>(1,910,647)</u>
<b>Total investment return net of spending policy</b>	<b><u>\$ 3,338,781</u></b>	<b><u>\$ 5,836,194</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:

	<b>2018</b>	<b>2017</b>
Building and improvements	\$ 13,798,541	\$ 13,774,657
Electronic systems improvements	1,629,566	1,277,384
Furniture and equipment	<u>3,683,865</u>	<u>3,496,477</u>
	19,111,972	18,548,518
Less: accumulated depreciation	<u>9,549,648</u>	<u>8,631,693</u>
	<b><u>\$ 9,562,324</u></b>	<b><u>\$ 9,916,825</u></b>

Depreciation expense was \$917,955 and \$853,270 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017. The balance of the prepaid lease is as follows as of June 30:

	<b>2018</b>	<b>2017</b>
Prepayment	\$ 800,000	\$ 800,000
Amortized to date	<u>321,886</u>	<u>313,805</u>
	<b><u>\$ 478,114</u></b>	<b><u>\$ 486,195</u></b>

# AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### **Note 5 - Endowments**

The Academy's endowment was comprised of the following at June 30:

	<b>2018</b>			
	<b><i>Unrestricted</i></b>	<b><i>Temporarily Restricted</i></b>	<b><i>Permanently Restricted</i></b>	<b><i>Total Endowment</i></b>
Board designated	\$ 5,307,963	\$ -	\$ -	\$ 5,307,963
Donor restricted	(283,108)	7,027,119	38,628,254	45,372,265
	5,024,855	7,027,119	38,628,254	50,680,228
Receivable	-	-	1,080,508	1,080,508
<b>Total</b>	<b>\$ 5,024,855</b>	<b>\$ 7,027,119</b>	<b>\$ 39,708,762</b>	<b>\$ 51,760,736</b>
	<b>2017</b>			
	<b><i>Unrestricted</i></b>	<b><i>Temporarily Restricted</i></b>	<b><i>Permanently Restricted</i></b>	<b><i>Total Endowment</i></b>
Board designated	\$ 5,042,838	\$ -	\$ -	\$ 5,042,838
Donor restricted	(442,887)	5,735,354	35,836,525	41,128,992
	4,599,951	5,735,354	35,836,525	46,171,830
Receivable	-	-	1,459,321	1,459,321
<b>Total</b>	<b>\$ 4,599,951</b>	<b>\$ 5,735,354</b>	<b>\$ 37,295,846</b>	<b>\$ 47,631,151</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 2018:

	<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, June 30, 2017	\$ (442,887)	\$ 5,042,838	\$ 5,735,354	\$35,836,525	\$41,571,879	\$46,171,830
Investment return:						
Investment income	53,425	78,395	461,167	94,688	555,855	687,675
Net realized/unrealized gains	258,002	412,252	2,239,969	448,045	2,688,014	3,358,268
Total investment return	311,427	490,647	2,701,136	542,733	3,243,869	4,045,943
Contributions	-	-	-	2,540,595	2,540,595	2,540,595
Endowment transfers	9,119	-	(9,119)	-	(9,119)	-
Appropriation of endowment assets for expenditure	(160,767)	(225,522)	(1,400,252)	(291,599)	(1,691,851)	(2,078,140)
<b>Endowment net assets, June 30, 2018</b>	<b>\$ (283,108)</b>	<b>\$ 5,307,963</b>	<b>\$ 7,027,119</b>	<b>\$38,628,254</b>	<b>\$45,655,373</b>	<b>\$50,680,228</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 2017:

	<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, June 30, 2016	<u>\$ (1,007,956)</u>	<u>\$ 4,674,237</u>	<u>\$ 3,904,966</u>	<u>\$ 33,018,044</u>	<u>\$ 36,923,010</u>	<u>\$ 40,589,291</u>
Investment return:						
Investment income	65,759	76,541	356,266	91,758	448,024	590,324
Net realized/unrealized gains	<u>524,373</u>	<u>584,983</u>	<u>3,138,664</u>	<u>758,644</u>	<u>3,897,308</u>	<u>5,006,664</u>
Total investment return	<u>590,132</u>	<u>661,524</u>	<u>3,494,930</u>	<u>850,402</u>	<u>4,345,332</u>	<u>5,596,988</u>
Contributions	-	-	-	2,248,309	2,248,309	2,248,309
Endowment transfers	175,765	-	(175,765)	-	(175,765)	-
Appropriation of endowment assets for expenditure	<u>(200,828)</u>	<u>(292,923)</u>	<u>(1,488,777)</u>	<u>(280,230)</u>	<u>(1,769,007)</u>	<u>(2,262,758)</u>
<b>Endowment net assets, June 30, 2017</b>	<b><u>\$ (442,887)</u></b>	<b><u>\$ 5,042,838</u></b>	<b><u>\$ 5,735,354</u></b>	<b><u>\$ 35,836,525</u></b>	<b><u>\$ 41,571,879</u></b>	<b><u>\$ 46,171,830</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 1.341% and 0.858% as of June 30, 2018 and 2017, 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:

<b>Year Ending June 30,</b>	
2019	\$ 120,090
2020	127,290
2021	134,930
2022	143,030
2023	151,610
Thereafter	<u>1,871,952</u>
	<b><u>\$ 2,548,902</u></b>

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 \$42,000 and \$44,000 at June 30, 2018 and 2017, respectively.

### **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; forfeitures are used to off-set current employer contributions. The Academy's contributions to the DC Plan were approximately \$332,000 and \$381,000 for the years ended June 30, 2018 and 2017, 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.