

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Financial Statements

Table of Contents

Consolidated Financial Statements:

Independent Auditors' Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4-5
Consolidated Statements of Functional Expenses	6-7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9-29



Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

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 (the "Academy"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows 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, 2019 and 2018, 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.

Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, in 2019, the Academy adopted Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers* and AUS No. 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Maye Heyman McCann P.C.

November 7, 2019
Boston, Massachusetts

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Statements of Financial Position

June 30,

Assets	2019	2018
Cash	\$ 480,996	\$ 298,498
Grants and pledges receivable, net	7,729,154	10,595,509
Other assets	196,487	237,549
Investments	68,059,118	66,584,120
Beneficial interest in perpetual trust for science	2,841,684	2,883,235
Prepaid land lease, net	470,034	478,114
Property and equipment, net	10,002,027	9,562,324
Total assets	<u>\$ 89,779,500</u>	<u>\$ 90,639,349</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 796,858	\$ 401,064
Note payable	2,427,612	2,548,902
Total liabilities	<u>3,224,470</u>	<u>2,949,966</u>
Net assets:		
Without donor restrictions	25,373,414	23,955,882
With donor restrictions	61,181,616	63,733,501
Total net assets	<u>86,555,030</u>	<u>87,689,383</u>
Total liabilities and net assets	<u>\$ 89,779,500</u>	<u>\$ 90,639,349</u>

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2019
(with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues:				
Support:				
Gifts and grants	\$ 1,632,838	\$ 1,349,070	\$ 2,981,908	\$ 5,058,439
Annual appeal	1,964,371	-	1,964,371	1,933,299
University affiliates	1,015,000	-	1,015,000	950,000
Membership dues	986,950	-	986,950	1,277,371
Distribution from beneficial interest in perpetual trust for science	-	120,000	120,000	118,440
Investment return	94,269	13,980	108,249	136,946
Other operating income	155,644	-	155,644	249,311
Net assets released from purpose restrictions	5,028,796	(5,028,796)	-	-
Total support	10,877,868	(3,545,746)	7,332,122	9,723,806
Investment spending policy for operations and programs	1,405,550	811,170	2,216,720	2,078,140
Total revenues	12,283,418	(2,734,576)	9,548,842	11,801,946
Expenses:				
Programs	7,334,739	-	7,334,739	6,661,251
General and administrative	3,485,559	-	3,485,559	2,790,847
Development	1,186,347	-	1,186,347	1,371,281
Conference services	674,375	-	674,375	648,494
Total operating expenses	12,681,020	-	12,681,020	11,471,873
Changes in net assets from operations	(397,602)	(2,734,576)	(3,132,178)	330,073
Other changes:				
Contributions to endowment	-	1,116,661	1,116,661	2,161,782
Investment return	1,025,185	2,114,250	3,139,435	5,279,975
Less - spending policy distribution	(231,810)	(1,984,910)	(2,216,720)	(2,078,140)
Capital grants	-	-	-	2,237,000
Net assets released from capital restrictions	1,021,759	(1,021,759)	-	-
Increase (decrease) in beneficial interest in perpetual trust for science	-	(41,551)	(41,551)	74,144
Total other changes	1,815,134	182,691	1,997,825	7,674,761
Changes in net assets	1,417,532	(2,551,885)	(1,134,353)	8,004,834
Net assets, beginning of year	23,955,882	63,733,501	87,689,383	79,684,549
Net assets, end of year	\$25,373,414	\$61,181,616	\$86,555,030	\$87,689,383

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

Year Ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Support:			
Gifts and grants	\$ 1,730,000	\$ 3,328,439	\$ 5,058,439
Annual appeal	1,933,299	-	1,933,299
University affiliates	950,000	-	950,000
Membership dues	1,277,371	-	1,277,371
Distribution from beneficial interest in perpetual trust for science	-	118,440	118,440
Investment income	127,982	8,964	136,946
Other operating income	249,311	-	249,311
Net assets released from purpose restrictions	4,113,502	(4,113,502)	-
 Total support	 <u>10,381,465</u>	 <u>(657,659)</u>	 <u>9,723,806</u>
 Investment spending policy for operations and programs	 <u>1,347,054</u>	 <u>731,086</u>	 <u>2,078,140</u>
 Total revenues	 <u>11,728,519</u>	 <u>73,427</u>	 <u>11,801,946</u>
Expenses:			
Programs	6,661,251	-	6,661,251
General and administrative	2,790,847	-	2,790,847
Development	1,371,281	-	1,371,281
Conference services	648,494	-	648,494
 Total operating expenses	 <u>11,471,873</u>	 <u>-</u>	 <u>11,471,873</u>
 Changes in net assets from operations	 <u>256,646</u>	 <u>73,427</u>	 <u>330,073</u>
Other changes:			
Contributions to endowment	-	2,161,782	2,161,782
Investment return	2,036,106	3,243,869	5,279,975
Less - spending policy distribution	(386,289)	(1,691,851)	(2,078,140)
Endowment adjustment	9,119	(9,119)	-
Capital grants	-	2,237,000	2,237,000
Net assets released from capital restrictions	144,992	(144,992)	-
Increase in beneficial interest in perpetual trust for science	-	74,144	74,144
 Total other changes	 <u>1,803,928</u>	 <u>5,870,833</u>	 <u>7,674,761</u>
 Changes in net assets	 <u>2,060,574</u>	 <u>5,944,260</u>	 <u>8,004,834</u>
 Net assets, beginning of year	 21,612,200	 58,072,349	 79,684,549
Impact of change in accounting for underwater accounting for endowment	 <u>283,108</u>	 <u>(283,108)</u>	 <u>-</u>
 Net assets, end of year	 <u>\$ 23,955,882</u>	 <u>\$ 63,733,501</u>	 <u>\$ 87,689,383</u>

See accompanying notes to the consolidated financial statements.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019
(with comparative totals for 2018)

	2019									2018	
	Projects and Studies	Publications	Events and Member Outreach	Communications	Other Program Services	Total Programs	General and Administrative	Development	Conference Services	Total	Total
Personnel and related:											
Salaries	\$ 1,298,071	\$ 396,464	\$ 447,672	\$ 356,468	\$ 503,955	\$ 3,002,630	\$ 1,681,673	\$ 681,587	\$ 111,478	\$ 5,477,368	\$ 5,208,218
Fringe benefits and payroll taxes	284,029	117,875	112,980	82,322	107,147	704,353	363,349	164,095	28,940	1,260,737	1,083,812
Total personnel and related	1,582,100	514,339	560,652	438,790	611,102	3,706,983	2,045,022	845,682	140,418	6,738,105	6,292,030
Other:											
Consultants	397,539	7,655	23,714	109,571	1,367	539,846	247,680	52,203	93,437	933,166	730,896
Contract labor	13,168	-	-	-	20,479	33,647	240	-	-	33,887	46,271
Copying and printing	75,193	78,962	16,975	7,344	8,744	187,218	18,362	36,265	-	241,845	276,238
Fees and honoraria	77,764	-	-	-	250	78,014	634	-	-	78,648	23,648
Insurance	-	742	9,028	-	-	9,770	78,209	-	-	87,979	92,655
Interest	-	-	-	-	-	-	90,773	-	-	90,773	82,629
Meetings and conferences	284,762	-	633,358	1,216	2,823	922,159	86,896	28,897	600	1,038,552	829,048
Occupancy, rent and storage	29,430	-	2,678	-	-	32,108	216	-	390,539	422,863	411,729
Office supplies	26,787	7,121	25,689	8,383	6,496	74,476	149,360	37,518	15,837	277,191	273,392
Other	16,757	2,400	18,611	1,800	57,095	96,663	28,275	22,063	5,852	152,853	114,242
Postage and delivery	29,676	60,629	9,259	4,358	22,289	126,211	20,591	47,767	4	194,573	429,924
Services	34,867	759	81,176	1,339	15,620	133,761	268,959	10,376	2,956	416,052	253,542
Telephone	22,505	4,132	4,190	35,845	10,099	76,771	34,583	6,155	5,290	122,799	72,979
Travel	594,001	-	65,423	4,636	11,451	675,511	163,008	2,209	-	840,728	616,614
Total other	1,602,449	162,400	890,101	174,492	156,713	2,986,155	1,187,786	243,453	514,515	4,931,909	4,253,807
Total expenses before depreciation and amortization of land lease	3,184,549	676,739	1,450,753	613,282	767,815	6,693,138	3,232,808	1,089,135	654,933	11,670,014	10,545,837
Depreciation and amortization	252,752	77,770	58,328	58,327	194,424	641,601	252,751	97,212	19,442	1,011,006	926,036
Total expenses	\$ 3,437,301	\$ 754,509	\$ 1,509,081	\$ 671,609	\$ 962,239	\$ 7,334,739	\$ 3,485,559	\$ 1,186,347	\$ 674,375	\$ 12,681,020	\$ 11,471,873

See accompanying notes to the consolidated financial statements.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	2018									
	<i>Projects and Studies</i>	<i>Publications</i>	<i>Events and Member Outreach</i>	<i>Communications</i>	<i>Other Program Services</i>	<i>Total Programs</i>	<i>General and Administrative</i>	<i>Development</i>	<i>Conference Services</i>	<i>Total</i>
Personnel and related:										
Salaries	\$ 1,382,467	\$ 292,930	\$ 502,576	\$ 348,382	\$ 279,833	\$ 2,806,188	\$ 1,455,813	\$ 810,884	\$ 135,333	\$ 5,208,218
Fringe benefits and payroll taxes	293,196	94,060	114,597	61,950	72,804	636,607	219,072	194,623	33,510	1,083,812
Total personnel and related	1,675,663	386,990	617,173	410,332	352,637	3,442,795	1,674,885	1,005,507	168,843	6,292,030
Other:										
Consultants	346,128	19,281	8,945	48,350	11,601	434,305	166,560	57,761	72,270	730,896
Contract labor	15,705	-	2,244	12,261	3,483	33,693	12,578	-	-	46,271
Copying and printing	111,194	85,236	17,628	393	3,825	218,276	15,153	42,810	-	276,239
Fees and honoraria	21,107	-	-	-	2,000	23,107	541	-	-	23,648
Insurance	-	5,893	6,899	-	2,080	14,872	77,783	-	-	92,655
Interest	-	-	-	-	-	-	82,629	-	-	82,629
Meetings and conferences	171,949	417	537,114	168	2,350	711,998	88,706	26,741	1,603	829,048
Occupancy, rent and storage	28,800	-	18,883	-	-	47,683	-	-	364,046	411,729
Office supplies	32,457	5,943	19,815	21,164	6,427	85,806	134,859	35,483	17,244	273,392
Other	11,672	2,438	15,894	1,800	50,533	82,337	9,826	20,159	1,920	114,242
Postage and delivery	66,021	265,989	14,668	3	16,596	363,277	24,725	41,921	1	429,924
Services	54,155	1,685	52,025	10,996	4,008	122,869	117,173	12,509	991	253,542
Telephone	17,454	3,115	4,198	20,984	6,115	51,866	13,715	4,721	2,677	72,979
Travel	351,958	14,840	71,156	2,589	1,966	442,509	163,828	10,277	-	616,614
Total other	1,228,600	404,837	769,469	118,708	110,984	2,632,598	908,076	252,382	460,752	4,253,808
Total expenses before depreciation and amortization of land lease	2,904,263	791,827	1,386,642	529,040	463,621	6,075,393	2,582,961	1,257,889	629,595	10,545,838
Depreciation and amortization	283,480	75,595	56,696	56,696	113,391	585,858	207,886	113,392	18,899	926,035
Total expenses	\$ 3,187,743	\$ 867,422	\$ 1,443,338	\$ 585,736	\$ 577,012	\$ 6,661,251	\$ 2,790,847	\$ 1,371,281	\$ 648,494	\$ 11,471,873

See accompanying notes to the consolidated financial statements.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Consolidated Statements of Cash Flows

Years Ended June 30,

	2019	2018
Cash flows from operating activities:		
Changes in net assets	\$ (1,134,353)	\$ 8,004,834
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains on investments	(2,355,161)	(4,490,153)
Increase (decrease) in beneficial interest in perpetual trust for sci	41,551	(74,144)
Capital grants	-	(2,237,000)
Contributions to endowment	(541,756)	(2,561,782)
Depreciation and amortization	1,011,006	926,036
Changes in operating assets and liabilities:		
Other assets	41,062	(18,216)
Grants and pledges receivable	2,866,355	(2,177,356)
Accounts payable and accrued expenses	234,695	(99,409)
	163,399	(2,727,190)
Net cash provided by (used in) operating activities	163,399	(2,727,190)
Cash flows from investing activities:		
Cash paid for purchases of investments	(2,564,563)	(3,392,744)
Cash received from sale of investments	3,444,726	2,084,759
Property and equipment acquisitions	(1,281,530)	(563,454)
	(401,367)	(1,871,439)
Net cash used in investing activities	(401,367)	(1,871,439)
Cash flows from financing activities:		
Principal payments on note payable	(121,290)	(114,420)
Cash contributions to endowment	541,756	2,561,782
Capital grants	-	2,237,000
	420,466	4,684,362
Net cash provided by financing activities	420,466	4,684,362
Net change in cash	182,498	85,733
Cash, beginning of year	298,498	212,765
Cash, end of year	\$ 480,996	\$ 298,498
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 90,773	\$ 82,629
Amounts included in accounts payable and accrued expenses for the purchase of property and equipment	\$ 161,099	\$ -

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”) as a tax-exempt organization and is generally exempt from Federal and state income taxes on related income. Given the limited taxable activities of the Academy, management has concluded that certain disclosures related to tax provisions are not necessary.

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.

Events and Member 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. Additionally, the Academy encourages its members to become involved in Academy activities by initiating a number of outreach programs across the country and the world.

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.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

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

Other Program Services

Other program services consists of Archives, Visiting Scholar program and Membership elections. 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. Visiting Scholar Program provides residential fellowships to postdoctoral scholars in the humanities and social sciences. Membership elections encompass the process of soliciting from the current members nominations of potential new members, organizing membership committees.

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.

Basis of Presentation

The financial statements of the Academy have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America which requires that information regarding its financial position and activities are reported based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. The Board of Directors has designated from net assets without donor restrictions special operation funds, funds to function as endowment and special endowment funds as more fully described later in these footnotes. Net assets without donor restrictions also include investment in property and equipment, prepaid land lease, net of accumulated depreciation and amortization as well as the related note payable obligation.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Principles of Consolidation

The consolidated financial statements include the accounts of the Academy and its Affiliate, Norton's Woods, Inc. The Affiliate is 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.

All significant intercompany transactions have been eliminated in the accompanying 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)

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. Management considers all highly liquid investments with an initial maturity of three months or less to be cash and such accounts are carried at cost plus accrued interest. Cash held by investment managers is considered part of investments given the potential of near term investment of such funds.

Gifts and Pledges Receivable

Contributions receivable are initially recorded at fair value utilizing Level 2 inputs. Contributions to be received after one year are valued using the present value of a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. Amortization of the discount is included as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's estimates including factors of historical experience and a specific review of collection trends that differ from the plan on individual accounts. There was no allowance at June 30, 2019 and 2018.

Investments

Investments are recorded as per the fair value policies described elsewhere in this section. Net Investment return (loss) is reported in the consolidated statement of activities and changes in net assets and includes interest, dividends, realized and unrealized gains and losses less external investment expenses.

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 determined as per the fair value policies described elsewhere in this section. 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.

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.

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)

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. In addition, redemption rights may be restricted or eliminated by investment managers in the future in accordance with underlying fund agreements.

Prepaid Land Lease

The Academy prepaid its land lease associated with its main facility. Such amount is being amortized over the lease term on a straight-line basis.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

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

Property and Equipment and Depreciation

Property and equipment are recorded at cost when the useful life is more than one year and such amounts exceed a management established capitalization threshold. 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:

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

Revenue Recognition and Operations

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Net investment return on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Gifts and grants, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period when verifiably committed by the donor. Contributions of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in these policies. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Gifts and grants with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions when such time or purposes restriction has been satisfied. Gifts of property, plant and equipment are recorded as without donor restrictions unless the donor explicitly states how such assets should be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. The Academy reports expirations of donor restrictions when the donated or acquired long-lived asset is placed into service. Conditional gifts and grants are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers, however the Academy has not had conditional contributions in 2019 or 2018.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

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

Revenue Recognition and Operations (Continued)

Investment returns are reported as revenue based on the fair value of such investments at year end. Such returns are allocated ratably based on the relative proportion of funds invested with donor restrictions and those without donor restrictions. Investment returns allocated to net assets with donor restrictions remain in such category until appropriated by the board under the board approved spending policy unless otherwise required by the terms of the gift that they be added to the principal of the endowment.

Expenses are reported as decreases in net assets without donor restrictions. The consolidated statement of activities and changes in net assets presents expenses by functional classification. Building operations and maintenance costs, including depreciation, are allocated based on head count. Interest expense is allocated based on square footage applied to the functional purpose for which debt proceeds were used.

The Academy reports expirations or donor restrictions for capital assets when the donated or acquired long-lived assets are placed in service.

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.

University Affiliates revenue is recorded when received as management has concluded that such revenue is donative in intent.

Distributions from beneficial interest in perpetual trust are reported as revenue when received to the extent deemed an ordinary distribution.

Collections

The Academy does not capitalize collections that have been acquired through purchase or donation. Purchases of collection items are recorded as decreases in net assets without donor restrictions 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.

Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of property and equipment have been allocated to functional classifications based on head count of facilities and other relevant factors. Interest expense is allocated to functional classifications that benefited from the use of the proceeds of the debt.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

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

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.

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.

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 under the spending policies adopted by the board of directors. Contributions to the endowment, investment returns in excess of (or less than) the current spending policy, capital grants and changes in the value of the perpetual trust are considered non-operating.

New Accounting Pronouncements

The Academy adopted Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

The financial statement standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Academy has adjusted the presentation to all periods presented, which resulted in an increase in net assets without donor restrictions of \$283,108 and a decrease in net asset with donor restrictions of the same amount given the change in accounting for underwater endowment accounts included with this change.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

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

New Accounting Pronouncements (Continued)

The revenue from contracts with customers standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard addresses inconsistency in revenue recognition by outlining a principle based system which requires that there be a contract with a customer, that performance obligations be identified, that transaction price be determined, that transaction price is allocated to performance obligations and that revenue be recorded when or as the performance obligations are satisfied over the contract term. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The University adopted this standard using the modified retrospective approach on July 1, 2018.

The adoption of this standard did not materially impact reported revenue in any period because: (1) performance obligations were determined to be similar as compared with deliverables previously identified; (2) the transaction price is consistent; and (3) revenue was recorded in the same manner as under prior standards. In evaluating the effects of the change, contracts in process as of the date of adoption were considered under the practical expedient allowed under the standard.

Associated with the adoption of this standard, consideration was given the accounting treatment of certain costs to obtain and fulfill a contract. Certain incremental costs of obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer, that are not in the scope of other existing guidance, should be analyzed for capitalization. There were no costs incurred to obtain and fulfill contracts, and accordingly, no change was made to this accounting.

The contribution standard addresses inconsistency in revenue recognition when an item should be considered a contribution or an exchange type transaction. Exchanges would be accounted for using the revenue recognition standard above. It also provides guidance as to when a contribution should be considered conditional which, for example, the case is often when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable as applicable.

The contribution standard was applied using the modified retrospective method. This method was applied to transactions that were not complete or had otherwise already been recognized as of the beginning of fiscal year 2019. The impact related to adopting the new standard did not have a material impact on 2019 results. In evaluating the effects of the change, contributions in process as of the date of adoption were considered.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

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

New Accounting Pronouncements (Continued)

As required under the modified retrospective method used for both revenue recognition and contribution accounting, the Academy is required to indicate the effects of adopting the change in the current reporting period, however management determined that the effect on earned revenue, deferred revenue and contribution revenue was immaterial. As such, no disclosures have been provided on the effect on the June 30, 2019 financial statements. In addition, certain changes from adopting these new standards resulted in changes to terminology which impacted certain disclosures and presentation of amounts.

Subsequent Events

The Academy evaluated subsequent events through November 7, 2019, the date these financial statements were issued.

Note 2 - Liquidity and Availability

The Academy regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Academy has various sources of liquidity at its disposal, including cash and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Academy considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Academy seeks to operate with a relatively balanced budget and anticipates collecting revenue that approximates general expenditures.

Although not expected to be needed, the spendable yet restricted portion of the Academy's net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use. Also, board designated funds can be available as needed upon the vote of the board.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 2 - Liquidity and Availability (Continued)

As of June 30, 2019, the following tables show the total financial assets held by the Academy and the amounts of those financial assets available within one year of the balance sheet date to meet general expenditures:

Financial assets at year end:	
Cash	\$ 480,996
Grants and pledges receivable	7,729,154
Investments convertible to cash in the next 12 months	<u>68,059,118</u>
Total financial assets at year end	<u>\$ 76,269,268</u>

Financial assets available to meet general expenditures over the next 12 months:	
Cash	\$ 480,996
Grants and pledges receivable for general expenditure in the next 12 months	3,341,425
Investments not encumbered by donor restriction or board designation	6,050,434
Spending policy distribution for upcoming year	<u>2,455,997</u>
Total financial assets available to meet general expenditures over the next 12 months	<u>\$ 12,328,852</u>

Note 3 - Grants and Pledges Receivable

Grants and pledges receivable are due as follows as of June 30:

	2019	2018
Due within one year	\$ 3,741,425	\$ 3,967,700
Due within one to five years	<u>4,106,275</u>	<u>6,849,760</u>
	7,847,700	10,817,460
Less: discount to present value (2.0%)	<u>118,546</u>	<u>221,951</u>
Total grants and pledges receivable, net	<u>\$ 7,729,154</u>	<u>\$ 10,595,509</u>

The Academy has gift intentions of approximately \$3,130,000 and \$3,340,000 as of June 30, 2019 and 2018, respectively. These were determined to be intentions given that the donor expects to recommend payment of these amounts from donor advised funds. The Academy has no conditional contributions as of June 30, 2019 and 2018.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 4 - Investments, Beneficial Interest in Perpetual Trust for Science and Fair Values

Investments and beneficial interest in perpetual trust for science were as follows as of June 30:

	2019			
	Total	Investments Measured at NAV	Level 1	Level 3
Investments:				
Cash and equivalents	\$ 3,662,277	\$ -	\$ 3,662,277	\$ -
Equities:				
Global emerging markets mutual fund	6,162,903	-	6,162,903	-
Global markets mutual fund	12,112,966	-	12,112,966	-
Domestic markets mutual fund	17,751,502	-	17,751,502	-
Fixed income:				
Government mutual fund	2,564,531	-	2,564,531	-
Alternatives:				
Multi-strategy fund	12,544,452	12,544,452	-	-
Hedge fund - domestic equities	8,777,139	8,777,139	-	-
Private equity fund	4,483,348	4,483,348	-	-
Total investments	<u>68,059,118</u>	<u>25,804,939</u>	<u>42,254,179</u>	<u>-</u>
Beneficial interest in perpetual trust for science	<u>2,841,684</u>	<u>-</u>	<u>-</u>	<u>2,841,684</u>
	<u>\$ 70,900,802</u>	<u>\$ 25,804,939</u>	<u>\$ 42,254,179</u>	<u>\$ 2,841,684</u>
	2018			
	Total	Investments Measured at NAV	Level 1	Level 3
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	<u>66,584,120</u>	<u>20,757,431</u>	<u>45,826,689</u>	<u>-</u>
Beneficial interest in perpetual trust for science	<u>2,883,235</u>	<u>-</u>	<u>-</u>	<u>2,883,235</u>
	<u>\$ 69,467,355</u>	<u>\$ 20,757,431</u>	<u>\$ 45,826,689</u>	<u>\$ 2,883,235</u>

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 4 - Investments, Beneficial Interest in Perpetual Trust for Science and Fair Values (Continued)

Total investment return was as follows for the years ended June 30:

	2019	2018
Investment return	\$ 3,247,684	\$ 5,416,921
Less: spending policy	<u>(2,216,720)</u>	<u>(2,078,140)</u>
Total investment return net of spending policy	<u>\$ 1,030,964</u>	<u>\$ 3,338,781</u>

Investments can be redeemed as follows as of June 30:

	2019	2018
Investment redemption or sale period:		
Daily	\$ 42,254,179	\$ 44,826,689
Monthly	11,863,258	7,908,781
Quarterly	3,326,109	4,314,914
Annual	<u>10,615,572</u>	<u>9,533,736</u>
	<u>\$ 68,059,118</u>	<u>\$ 66,584,120</u>

Unfunded capital commitments were \$1,311,440 and \$2,173,000 as of June 30, 2019 and 2018, respectively. The Academy has no plans or intentions to liquidate any of its investment values using NAV methods other than in the ordinary course as allowed under such instruments.

Management has elected to omit Level 3 roll forward information given limited amounts involved.

Note 5 - Prepaid Land Lease and Property and Equipment

The Academy's main facility is located on land subject to a ninety-nine year lease signed in 1978. The lease expires in 2077. The balance of the prepaid land lease is as follows as of June 30:

	2019	2018
Prepayment	\$ 800,000	\$ 800,000
Amortized to date	<u>329,966</u>	<u>321,886</u>
Prepaid land lease, net	<u>\$ 470,034</u>	<u>\$ 478,114</u>

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 5 - Prepaid Land Lease and Property and Equipment (Continued)

Property and equipment consist of the following at June 30:

	2019	2018
Construction in Progress	\$ 439,675	\$ -
Building and improvements	14,103,094	13,798,541
Electronic systems improvements	2,184,563	1,629,566
Furniture and equipment	<u>3,827,269</u>	<u>3,683,865</u>
	20,554,601	19,111,972
Less: accumulated depreciation	<u>10,552,574</u>	<u>9,549,648</u>
Property and equipment, net	<u>\$ 10,002,027</u>	<u>\$ 9,562,324</u>

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 1.552% and 1.341% as of June 30, 2019 and 2018, 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.

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

Year Ending June 30,	
2020	\$ 127,290
2021	134,930
2022	143,030
2023	151,610
2024	160,710
Thereafter	<u>1,710,042</u>
	<u>\$ 2,427,612</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 \$41,000 and \$42,000 at June 30, 2019 and 2018, respectively.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 7 - Endowments and Net Assets

The Academy's endowment and funds functioning as endowment was comprised of the following at June 30:

	2019		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total Endowment</i>
Board designated	\$ 5,324,164	\$ -	\$ 5,324,164
Donor restricted	-	43,299,688	43,299,688
Building fund	-	2,743,674	2,743,674
	\$ 5,324,164	\$ 46,043,362	\$ 51,367,526
	2018		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total Endowment</i>
Board designated	\$ 5,307,963	\$ -	\$ 5,307,963
Donor restricted	-	42,619,071	42,619,071
Building fund	-	2,753,194	2,753,194
	\$ 5,307,963	\$ 45,372,265	\$ 50,680,228

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 7 - Endowments and Net Assets (Continued)

Changes in endowment net assets by class are as follows for June 30:

	2019		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total Endowment</i>
Endowment net assets and funds functioning as endowment at June 30, 2018	\$ 5,307,963	\$ 45,372,265	\$ 50,680,228
Investment return:			
Investment income	72,960	602,286	675,246
Net realized/unrealized gains	175,051	1,511,965	1,687,016
Total investment return	248,011	2,114,251	2,362,262
Contributions	-	541,756	541,756
Endowment transfers	-	-	-
Appropriation of endowment assets for expenditure	(231,810)	(1,984,910)	(2,216,720)
Endowment net assets and funds functioning as endowment at June 30, 2019	\$ 5,324,164	\$ 46,043,362	\$ 51,367,526

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 7 - Endowments and Net Assets (Continued)

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Endowment net assets and funds functioning as endowment at June 30, 2017	\$ 5,042,838	\$ 41,128,992	\$ 46,171,830
Investment return:			
Investment income	78,395	609,280	687,675
Net realized/unrealized gains	412,252	2,946,016	3,358,268
Total investment return	490,647	3,555,296	4,045,943
Contributions	-	2,540,595	2,540,595
Endowment transfers	-	-	-
Appropriation of endowment assets for expenditure	(225,522)	(1,852,618)	(2,078,140)
Endowment net assets and funds functioning as endowment at June 30, 2018	\$ 5,307,963	\$ 45,372,265	\$ 50,680,228

The Academy's endowment consists of approximately 47 individual restricted endowment funds and board designated for a variety of purposes. The net assets associated with endowment funds including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted in Massachusetts, requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Academy retains in perpetuity: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift and instrument at the time the accumulation is added to the fund, as applicable. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Academy in a manner consistent with the standard of prudence prescribed by UPMIFA.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 7 - Endowments and Net Assets (Continued)

In accordance with UPMIFA, the Academy considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The purposes of the Academy and the donor-restricted endowment fund;
- 3) General economic conditions;
- 4) The possible effect of inflation and deflation;
- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources of the Academy; and
- 7) The investment policies of the Academy.

Endowment Funds with Deficits

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). These deficits resulted from unfavorable market fluctuations that generally occurred shortly after the investment of newly established endowments, and authorized distribution that was deemed prudent. The Academy has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Funds with deficiencies were reported in net assets with donor restrictions as follows at June 30:

	2019	2018
Fair value of underwater endowment funds	\$ 3,508,578	\$ 5,503,359
Original endowment gift amount	<u>3,786,465</u>	<u>5,786,467</u>
Deficiencies of underwater endowment funds	<u>\$ (277,887)</u>	<u>\$ (283,108)</u>

Return Objectives and Risk Parameters

The investment objective of the endowment funds, through the careful management of assets, is designed to preserve the funds' purchasing power and to ensure a total return (income plus capital appreciation) necessary to preserve and enhance (in real dollar terms) the principal of the funds, and at the same time provide a dependable source of income for current operations and programs. To accomplish this objective, the funds seek to generate a total return that will exceed not only its spending authority, but also the eroding effects of inflation and its operating expenses over the long term. To meet this long-term objective, all total return (interest income, dividends, realized gains and unrealized gains), above and beyond the amount approved for expenditures, will be reinvested in the funds.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 7 - Endowments and Net Assets (Continued)

Strategies Employed for Achieving Investment Objectives

The funds have a long-term investment horizon with relatively low liquidity needs. For this reason, the funds can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. Consequently, the funds can take advantage of less liquid investments, such as private equity, hedge funds, and other partnership vehicles, which typically offer higher risk-adjusted return potential as compensation for forfeiture of liquidity.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

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 net assets with donor restrictions, 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 for the years ended June 30, 2019 and 2018.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 7 - Endowments and Net Assets (Continued)

Net Assets

The net assets are summarized as follows as of June 30:

	2019		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Detail of Net Assets			
Other funds	\$ 11,980,803	\$ -	\$ 11,980,803
Property and equipment	8,068,447	-	8,068,447
Board designated funds:			
Funds for major repairs	245,201	-	245,201
General and other	5,078,963	-	5,078,963
Total board designated funds	5,324,164	-	5,324,164
Programs and projects	-	10,641,158	10,641,158
Pledge receivable, net	-	1,655,412	1,655,412
Endowment funds:			
Endowment corpus	-	34,341,675	34,341,675
Accumulated unspent gains on endowment	-	8,958,013	8,958,013
Total endowment funds	-	43,299,688	43,299,688
Building fund	-	2,743,674	2,743,674
Total endowment funds and funds functioning as endowment	-	46,043,362	46,043,362
Beneficial interest in perpetual trust for science	-	2,841,684	2,841,684
 Total net assets	\$ 25,373,414	\$ 61,181,616	\$ 86,555,030

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 7 - Endowments and Net Assets (Continued)

Net Assets (Continued)

Detail of Net Assets	2018		Total
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	
Other funds	\$ 11,131,161	\$ -	\$ 11,131,161
Property and equipment	7,516,758	-	7,516,758
Board designated funds:			
Funds for major repairs	233,615	-	233,615
General and other	5,074,348	-	5,074,348
Total board designated funds	5,307,963	-	5,307,963
Programs and projects	-	14,397,493	14,397,493
Pledge receivable, net	-	1,080,508	1,080,508
Endowment funds:			
Endowment corpus	-	33,799,918	33,799,918
Accumulated unspent gains on endowment	-	8,819,153	8,819,153
Total endowment funds	-	42,619,071	42,619,071
Building fund	-	2,753,194	2,753,194
Total endowment funds and funds functioning as endowment	-	45,372,265	45,372,265
Beneficial interest in perpetual trust for science	-	2,883,235	2,883,235
Total net assets	\$ 23,955,882	\$ 63,733,501	\$ 87,689,383

Property and equipment net assets represent resources available and amounts expended for property and equipment and the prepaid land lease, net of related debt.

Board designated funds are special endowment funds that 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 funds include funds for major repairs and general and other needs as designed by the board.

Programs and projects net assets represent resources available for the program and projects of the Academy that have been restricted for time, purpose or both time and purpose by external donors.

Building fund represents resources received from donor to support the various capital needs of the Academy. These funds are donor restricted for these purposes and have been treated as a fund functioning as endowment to support these needs.

AMERICAN ACADEMY OF ARTS AND SCIENCES AND AFFILIATE

Notes to Consolidated Financial Statements

Note 8 - 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 \$425,000 and \$332,000 for the years ended June 30, 2019 and 2018, 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 subject to IRC limits. 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.

Note 9 - Net Operating Loss Carryforwards

The Affiliate had Federal and state income tax net operating loss carryforwards of approximately \$7,000,000 available to offset future taxable income. Management has not recognized deferred tax assets due to the uncertainty of their use to offset future taxable income.

	2019	2018
Revenue	\$ 357,249	\$ 555,549
Expenses - direct	<u>(413,967)</u>	<u>(478,160)</u>
Net contribution	(56,718)	77,389
Facility allocations	(576,585)	(551,422)
Overhead allocations	<u>(82,529)</u>	<u>(70,581)</u>
Net loss	<u>\$ (715,832)</u>	<u>\$ (544,614)</u>