



# **AMERICAN COUNCIL OF LEARNED SOCIETIES**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 and 2016**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
American Council of Learned Societies  
New York, New York

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the American Council of Learned Societies (the "Council"), which are comprised of the statements of financial position as of June 30, 2017 and 2016, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

The Council's management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the organization's preparation and fair presentation of the 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 organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the American Council of Learned Societies as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

New York, New York  
October 27, 2017

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Statements of Financial Position

|   | <u>June 30,</u>              |                              |
|---|------------------------------|------------------------------|
|   | <u>2017</u>                  | <u>2016</u>                  |
| <b>ASSETS</b>   |                              |                              |
| Cash  | \$ 5,849,723                 | \$ 5,476,478                 |
| Grants receivable, net                                  | 13,012,667                   | 13,740,935                   |
| Accounts receivable, net                                | 407,514                      | 307,402                      |
| Accrued interest and other assets                       | 35,408                       | 14,064                       |
| Endowment investments                                   | 120,159,446                  | 105,979,093                  |
| Other investments                                       | 41,080,599                   | 37,067,272                   |
| Property and equipment                                  | <u>2,791,735</u>             | <u>2,776,522</u>             |
|   | <b><u>\$ 183,337,092</u></b> | <b><u>\$ 165,361,766</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                       |                              |                              |
| Liabilities:  |                              |                              |
| Accounts payable and accrued expenses                   | \$ 527,773                   | \$ 812,611                   |
| Accrued postretirement medical benefit cost             | 1,862,083                    | 1,979,891                    |
| Fellowships payable                                     | 18,920,275                   | 16,630,595                   |
| Deferred revenues                                       | 534,310                      | 632,422                      |
| Bank loan payable                                       | <u>2,807,259</u>             | <u>3,032,085</u>             |
| Total liabilities                                       | <b><u>24,651,700</u></b>     | <b><u>23,087,604</u></b>     |
| Commitments and contingencies (See Note K)              |                              |                              |
| Net assets:   |                              |                              |
| Unrestricted:   |                              |                              |
| Board-designated endowment:                             |                              |                              |
| Central fellowship program                              | 46,019,797                   | 47,770,077                   |
| Program administration                                  | <u>31,314,792</u>            | <u>20,165,385</u>            |
|   | <b>77,334,589</b>            | <b>67,935,462</b>            |
| Undesignated  | <u>2,837,388</u>             | <u>2,829,891</u>             |
| Total unrestricted                                      | <b>80,171,977</b>            | <b>70,765,353</b>            |
| Temporarily restricted                                  | 43,831,456                   | 36,826,850                   |
| Central fellowship permanently restricted endowment     | 24,400,795                   | 24,400,795                   |
| Program administration permanently restricted endowment | <u>10,281,164</u>            | <u>10,281,164</u>            |
| Total net assets  | <b><u>158,685,392</u></b>    | <b><u>142,274,162</u></b>    |
|   | <b><u>\$ 183,337,092</u></b> | <b><u>\$ 165,361,766</u></b> |

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Statements of Activities

|   | Year Ended June 30,  |                        |                        |                       |                      |                        |                        |                       |
|---|----------------------|------------------------|------------------------|-----------------------|----------------------|------------------------|------------------------|-----------------------|
|   | 2017                 |                        |                        |                       | 2016                 |                        |                        |                       |
|   | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                 | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                 |
| <b>Operating activities:</b>                              |                      |                        |                        |                       |                      |                        |                        |                       |
| <b>Support:</b>   |                      |                        |                        |                       |                      |                        |                        |                       |
| U.S. government agencies                                  |                      | \$ 159,046             |                        | \$ 159,046            |                      | \$ 91,820              |                        | \$ 91,820             |
| Foundations   |                      | 21,610,442             |                        | 21,610,442            |                      | 27,488,550             |                        | 27,488,550            |
| <b>Contributions:</b>                                     |                      |                        |                        |                       |                      |                        |                        |                       |
| Individuals   | \$ 369,604           |                        |                        | 369,604               | \$ 629,210           |                        |                        | 629,210               |
| University consortium                                     | 1,750,000            |                        |                        | 1,750,000             | 1,700,000            |                        |                        | 1,700,000             |
| Associates dues   | 986,970              |                        |                        | 986,970               | 1,055,645            |                        |                        | 1,055,645             |
| Board approved endowment draws                            | 3,610,000            |                        |                        | 3,610,000             | 4,656,150            |                        |                        | 4,656,150             |
| Net assets released from program restrictions             | 21,015,978           | (21,015,978)           |                        | 0                     | 19,654,022           | (19,654,022)           |                        | 0                     |
| <b>Total support</b>                                      | <b>27,732,552</b>    | <b>753,510</b>         |                        | <b>28,486,062</b>     | <b>27,695,027</b>    | <b>7,926,348</b>       |                        | <b>35,621,375</b>     |
| <b>Revenue:</b>   |                      |                        |                        |                       |                      |                        |                        |                       |
| Societies dues  | 174,310              |                        |                        | 174,310               | 174,700              |                        |                        | 174,700               |
| Humanities E-Book subscriptions                           | 878,343              |                        |                        | 878,343               | 900,620              |                        |                        | 900,620               |
| Royalties   | 164,274              |                        |                        | 164,274               | 180,924              |                        |                        | 180,924               |
| Placement fee income                                      |                      | 126,000                |                        | 126,000               |                      | 110,000                |                        | 110,000               |
| Other   | 10,985               | 1,134                  |                        | 12,119                | 12,922               |                        |                        | 12,922                |
| <b>Total revenue</b>                                      | <b>1,227,912</b>     | <b>127,134</b>         |                        | <b>1,355,046</b>      | <b>1,269,166</b>     | <b>110,000</b>         |                        | <b>1,379,166</b>      |
| <b>Total support and revenue</b>                          | <b>28,960,464</b>    | <b>880,644</b>         |                        | <b>29,841,108</b>     | <b>28,964,193</b>    | <b>8,036,348</b>       |                        | <b>37,000,541</b>     |
| <b>Expenses:</b>  |                      |                        |                        |                       |                      |                        |                        |                       |
| Fellowships and other direct program costs                | 19,645,884           |                        |                        | 19,645,884            | 17,976,008           |                        |                        | 17,976,008            |
| Central fellowship  | 3,811,195            |                        |                        | 3,811,195             | 3,683,655            |                        |                        | 3,683,655             |
| Scholarly publications                                    | 765,828              |                        |                        | 765,828               | 1,192,123            |                        |                        | 1,192,123             |
| General administration                                    | 2,131,724            |                        |                        | 2,131,724             | 2,229,991            |                        |                        | 2,229,991             |
| Fund-raising  | 378,173              |                        |                        | 378,173               | 129,322              |                        |                        | 129,322               |
| <b>Total expenses</b>                                     | <b>26,732,804</b>    |                        |                        | <b>26,732,804</b>     | <b>25,211,099</b>    |                        |                        | <b>25,211,099</b>     |
| Change in net assets before non-operating activities      | 2,227,660            | 880,644                |                        | 3,108,304             | 3,753,094            | 8,036,348              |                        | 11,789,442            |
| <b>Non-operating activities:</b>                          |                      |                        |                        |                       |                      |                        |                        |                       |
| Endowment investment income in excess to authorized draws | 6,954,048            | 6,077,118              |                        | 13,031,166            | (6,532,572)          | (1,076,512)            |                        | (7,609,084)           |
| Temporarily restricted grant investment income            | 11,440               | 46,844                 |                        | 58,284                | 3,060                | 30,102                 |                        | 33,162                |
| Post retirement-medical benefit charges                   | 213,476              |                        |                        | 213,476               | (364,900)            |                        |                        | (364,900)             |
| <b>Change in net assets</b>                               | <b>9,406,624</b>     | <b>7,004,606</b>       |                        | <b>16,411,230</b>     | <b>(3,141,318)</b>   | <b>6,989,938</b>       |                        | <b>3,848,620</b>      |
| Net assets, beginning of year                             | 70,765,353           | 36,826,850             | \$ 34,681,959          | 142,274,162           | 73,906,671           | 29,836,912             | \$ 34,681,959          | 138,425,542           |
| <b>Net assets, end of year</b>                            | <b>\$ 80,171,977</b> | <b>\$ 43,831,456</b>   | <b>\$ 34,681,959</b>   | <b>\$ 158,685,392</b> | <b>\$ 70,765,353</b> | <b>\$ 36,826,850</b>   | <b>\$ 34,681,959</b>   | <b>\$ 142,274,162</b> |

See notes to financial statements.

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Statement of Functional Expenses

Year Ended June 30, 2017

(with summarized information for 2016)

|                                    | Grant<br>Programs | Central<br>Fellowship | Scholarly<br>Publications | General<br>Administration | Fund-<br>raising | Total         |               |
|------------------------------------|-------------------|-----------------------|---------------------------|---------------------------|------------------|---------------|---------------|
|                                    |                   |                       |                           |                           |                  | 2017          | 2016          |
| Central fellowships (endowed)      | \$ 174,862        | \$ 3,362,034          |                           |                           |                  | \$ 3,536,896  | \$ 3,283,653  |
| Fellowships and grants             | 15,890,728        |                       |                           |                           |                  | 15,890,728    | 14,497,898    |
| Salaries                           | 1,511,174         | 220,576               | \$ 132,040                | \$ 745,871                | 184,916          | 2,794,577     | 2,827,916     |
| Retirement plan                    | 120,894           | 22,058                | 13,101                    | 66,307                    | 18,492           | 240,852       | 214,798       |
| Other employee benefits            | 358,795           | 40,476                | 24,040                    | 157,915                   | 33,932           | 615,158       | 549,436       |
| Payroll taxes                      | 87,849            | 16,874                | 10,022                    | 43,359                    | 14,146           | 172,250       | 155,685       |
| Auditing                           |                   |                       |                           | 60,434                    |                  | 60,434        | 57,616        |
| Other professional fees            | 370,601           | 54,471                | 178,495                   | 69,473                    | 72,800           | 745,840       | 604,628       |
| Advertising                        | 11,751            |                       | 8,348                     |                           |                  | 20,099        | 14,987        |
| Office expense                     | 63,059            | 13,612                | 10,057                    | 80,347                    | 6,128            | 173,203       | 187,842       |
| Information technology             | 268,327           | 27,390                | 12,562                    | 162,400                   | 32,226           | 502,905       | 447,344       |
| Royalties                          |                   |                       | 182,682                   |                           |                  | 182,682       | 454,429       |
| Occupancy                          | 10,781            | 20,152                |                           | 122,047                   | 3,246            | 156,226       | 161,551       |
| Travel                             | 299,924           | 9,091                 | 16,687                    | 138,099                   | 534              | 464,335       | 441,733       |
| Conferences and meetings           | 241,549           | 9,255                 | 38,676                    | 257,089                   | 2,971            | 549,540       | 469,451       |
| Interest expense                   |                   |                       |                           | 100,452                   |                  | 100,452       | 107,840       |
| Insurance                          | 1,608             | 5,561                 |                           | 26,077                    | 896              | 34,142        | 39,247        |
| Printing, publishing and reports   |                   | 7,970                 | 77,211                    | 48,269                    | 1,284            | 134,734       | 188,515       |
| Dues and subscriptions             | 8,656             | 889                   | 3,116                     | 76,567                    | 6,134            | 95,362        | 79,308        |
| Bad debt expense                   |                   |                       | 763                       | 7,600                     |                  | 8,363         | 198,721       |
| Miscellaneous                      | 3,371             | 786                   | 660                       | 10,400                    | 468              | 15,685        | 11,228        |
| Overhead allocation                | 221,955           |                       | 57,368                    | (279,323)                 |                  | 0             | 0             |
| Total expenses before depreciation | 19,645,884        | 3,811,195             | 765,828                   | 1,893,383                 | 378,173          | 26,494,463    | 24,993,826    |
| Depreciation                       |                   |                       |                           | 238,341                   |                  | 238,341       | 217,273       |
| Total expenses                     | \$ 19,645,884     | \$ 3,811,195          | \$ 765,828                | \$ 2,131,724              | \$ 378,173       | \$ 26,732,804 | \$ 25,211,099 |

See notes to financial statements.

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Statement of Functional Expenses Year Ended June 30, 2016

|                                    | <u>Grant<br/>Programs</u> | <u>Central<br/>Fellowship</u> | <u>Scholarly<br/>Publications</u> | <u>General<br/>Administration</u> | <u>Fund-raising</u> | <u>Total<br/>2016</u> |
|------------------------------------|---------------------------|-------------------------------|-----------------------------------|-----------------------------------|---------------------|-----------------------|
| Central fellowships (endowed)      |                           | \$ 3,283,653                  |                                   |                                   |                     | \$ 3,283,653          |
| Fellowships and grants             | \$ 14,492,898             |                               | \$ 5,000                          |                                   |                     | 14,497,898            |
| Salaries                           | 1,688,035                 | 233,776                       | 157,344                           | \$ 700,316                        | \$ 48,445           | 2,827,916             |
| Retirement plan                    | 107,813                   | 23,378                        | 15,734                            | 63,028                            | 4,845               | 214,798               |
| Other employee benefits            | 383,717                   | 42,898                        | 25,298                            | 88,633                            | 8,890               | 549,436               |
| Payroll taxes                      | 80,039                    | 17,884                        | 12,037                            | 42,019                            | 3,706               | 155,685               |
| Auditing                           |                           |                               |                                   | 57,616                            |                     | 57,616                |
| Other professional fees            | 258,606                   | 29,387                        | 193,703                           | 67,029                            | 55,903              | 604,628               |
| Advertising                        | 10,262                    |                               | 4,725                             |                                   |                     | 14,987                |
| Office expense                     | 49,329                    | 3,144                         | 15,850                            | 114,004                           | 5,515               | 187,842               |
| Information technology             | 195,362                   | 7,908                         | 32,011                            | 211,479                           | 584                 | 447,344               |
| Royalties                          |                           |                               | 454,429                           |                                   |                     | 454,429               |
| Occupancy                          | 10,312                    | 11,259                        |                                   | 139,149                           | 831                 | 161,551               |
| Travel                             | 308,539                   | 13,101                        | 19,876                            | 100,145                           | 72                  | 441,733               |
| Conferences and meetings           | 194,607                   | 13,319                        | 36,881                            | 224,494                           | 150                 | 469,451               |
| Interest expense                   |                           |                               |                                   | 107,840                           |                     | 107,840               |
| Insurance                          |                           |                               |                                   | 39,247                            |                     | 39,247                |
| Printing, publishing and reports   |                           |                               | 152,871                           | 35,644                            |                     | 188,515               |
| Dues and subscriptions             | 8,785                     | 3,948                         | 3,665                             | 62,619                            | 291                 | 79,308                |
| Bad debt expense                   |                           |                               | 5,331                             | 193,390                           |                     | 198,721               |
| Miscellaneous                      | 4,160                     |                               |                                   | 6,978                             | 90                  | 11,228                |
| Overhead allocation                | <u>183,544</u>            |                               | <u>57,368</u>                     | <u>(240,912)</u>                  |                     | <u>0</u>              |
| Total expenses before depreciation | 17,976,008                | 3,683,655                     | 1,192,123                         | 2,012,718                         | 129,322             | 24,993,826            |
| Depreciation                       |                           |                               |                                   | <u>217,273</u>                    |                     | <u>217,273</u>        |
| Total expenses                     | <u>\$ 17,976,008</u>      | <u>\$ 3,683,655</u>           | <u>\$ 1,192,123</u>               | <u>\$ 2,229,991</u>               | <u>\$ 129,322</u>   | <u>\$ 25,211,099</u>  |

See notes to financial statements.

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Statements of Cash Flows

|  | Year Ended<br>June 30,     |                            |
|--|----------------------------|----------------------------|
|  | 2017                       | 2016                       |
| <b>Cash flows from operating activities:</b>   |                            |                            |
| Change in net assets   | \$ 16,411,230              | \$ 3,848,620               |
| Adjustments to reconcile change in net assets to net cash provided by<br>(used in) operating activities: |                            |                            |
| Depreciation   | 238,341                    | 217,273                    |
| Amortization of debt-issuance costs  | 7,716                      | 7,716                      |
| Bad debt expense   | 8,363                      | 198,721                    |
| Net unrealized (gains) losses on fair value of investments   | (14,508,954)               | 3,769,691                  |
| Net realized gains on sales of investments   | (1,262,209)                | (787,111)                  |
| Changes in:  |                            |                            |
| Grants receivable  | 728,268                    | (12,409,627)               |
| Accounts receivable  | (108,475)                  | 94,304                     |
| Accrued interest and other assets  | (21,344)                   | 7,311                      |
| Accounts payable and accrued expenses  | (284,838)                  | (19,495)                   |
| Accrued post-retirement benefit  | (117,808)                  | 392,574                    |
| Fellowships payable  | 2,289,680                  | 946,679                    |
| Deferred revenues  | (98,112)                   | (128,723)                  |
| Net cash provided by (used in) operating activities  | <u>3,281,858</u>           | <u>(3,862,067)</u>         |
| <b>Cash flows from investing activities:</b>   |                            |                            |
| Proceeds from sales of investments   | 26,797,336                 | 22,089,172                 |
| Purchases of investments   | (29,219,853)               | (16,105,586)               |
| Purchases of property and equipment  | (253,554)                  | (124,796)                  |
| Net cash (used in) provided by investing activities  | <u>(2,676,071)</u>         | <u>5,858,790</u>           |
| <b>Cash flows from financing activities:</b>   |                            |                            |
| Bank loan repayments   | (232,542)                  | (225,448)                  |
| Net cash used in financing activities  | <u>(232,542)</u>           | <u>(225,448)</u>           |
| <b>Change in cash</b>  | <b>373,245</b>             | <b>1,771,275</b>           |
| Cash, beginning of year  | <u>5,476,478</u>           | <u>3,705,203</u>           |
| <b>Cash, end of year</b>   | <b><u>\$ 5,849,723</u></b> | <b><u>\$ 5,476,478</u></b> |
| <b>Supplemental disclosure of cash flow information:</b>   |                            |                            |
| Interest paid during the year  | \$ 92,736                  | \$ 100,124                 |

See notes to financial statements.

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Notes to Financial Statements June 30, 2017 and 2016

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### [1] Organization:

The American Council of Learned Societies (the "Council"), incorporated in Washington, D.C. in 1924, was established in 1919 and is located in New York City. The Council is a private, not-for-profit federation of national scholarly organizations, funded largely by grants from private foundations and universities. The purpose of the Council is the advancement of humanistic studies in all fields of learning and the maintenance and strengthening of relations among the national societies devoted to such studies.

The Council is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and from state and local taxes under comparable laws.

#### [2] Basis of accounting:

The accompanying financial statements of the Council have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### [3] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, support revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

#### [4] Investments:

The Council's investments in equity securities, mutual funds, and fixed income securities are reported at their fair values in the accompanying statements of financial position based on quoted market prices.

The Council also has investments in limited partnerships and limited liability companies which are considered to be alternative investments, for which readily determinable fair values do not exist. The underlying holdings of the Council's alternative investments consist principally of publicly traded domestic and international equity securities. The fair value of the alternative investments has been estimated based on the respective net asset value ("NAV") per share (or its equivalent unit) of each investment, as reported by the particular investment manager. Because of the complex management structures and nature of the underlying investments and the inherent uncertainty of the valuation of the alternative investments, the Council's management and its various investment managers monitor their positions to reduce the risk of potential losses due to changes in fair values or the failure of counterparties to perform on a routine basis. Management believes the carrying amount of the investments in non-publicly traded securities is a reasonable estimate of their fair value. However, such estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

The Council's investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.



# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Notes to Financial Statements June 30, 2017 and 2016

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### [4] Investments: (continued)

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the accompanying statements of activities as increases or decreases in unrestricted net assets unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the beginning of each year. The earnings from dividends and interest are recognized when earned.

Investment expenses include the services of bank trustees, investment managers and custodians. The balances of investment management fees disclosed in Note B are those specific fees charged by the Council's various investment managers in each fiscal year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

Donated securities are recorded at their estimated fair values, as determined by the proceeds received on the dates of donation or by their net asset values as determined by the Council's management. The Council's policy is to sell the donated securities immediately, and, accordingly, for purposes of the statements of cash flows, donated securities and the proceeds generated from their sale are included within operating activities.

The Council's Board of Directors has adopted a spending-rate policy whereby a predetermined amount of each fiscal-year's investment assets is used to fund current operations. For fiscal-years 2017 and 2016, respectively, the spending-rate was calculated as 3.5% and 5%. (See Note H[8]).

#### [5] Property and equipment:

Property and equipment are stated at their original costs at the date of acquisition, or, if contributed, at their estimated fair values at the dates of donation. The Council capitalizes items of property and equipment that have a cost of \$5,000 or more and useful lives greater than one year whereas the costs of minor repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over five to thirty years, the estimated useful lives of the related assets.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2016 and 2015, respectively, and in the opinion of management, there were no impairments. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

#### [6] Deferred debt-issuance costs:

Costs incurred in connection with the bank loan payable are deferred and amortized over the term of the related debt using the straight-line method, which approximates the effective-interest method of amortization. These costs are reported in the accompanying statements of financial position as a direct reduction of the related debt. The amortization of deferred debt-issuance costs is reported as interest expense in the accompanying statements of activities.

Interest expense relating to the amortization of deferred bond-issuance costs was approximately \$7,700 for both fiscal-years 2017 and 2016 respectively. (See Note A[13] and Note F).

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Notes to Financial Statements June 30, 2017 and 2016

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### [7] Accrued vacation:

Accrued vacation is included as a liability in the accompanying financial statements and represents the Council's obligation for the potential cost of unused employee vacation time that would be payable in the event that all employees left the Council; the obligation is recalculated every year. At June 30, 2017 and 2016, the accrued vacation obligation was approximately \$295,000 and \$291,000, respectively, and was reported as part of accounts payable and accrued expenses in the accompanying statements of financial position.

#### [8] Net assets:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions. Substantially all of the Council's unrestricted net assets, exclusive of the amounts representing property and equipment, have been allocated, by a formal resolution of the Board of Directors, to board-designated endowment, the unrestricted earnings of which will be applied to the future support of its central fellowship program and administrative expenses. Annually, any amount up to, but not greater than, the excess of its unrestricted revenue over expenses, including unrealized gains or losses on its entire investment portfolio, may be so designated.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of the District of Columbia's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and the use of which has been restricted by donors or state law to specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, a purpose restriction is accomplished or the funds are appropriated through an action of the Board of Directors, and temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as "net assets released from program restrictions."

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources the principal of which is originally restricted into perpetuity by donors. The purposes for which the income and net capital appreciation arising from the underlying assets may be used depend on the wishes of those donors. Under the terms of UPMIFA, those earnings are classified as temporarily restricted in the accompanying statements of activities, pending appropriation by the Board of Directors.

#### [9] Revenue recognition:

(i) *Contributions:*

Contributions made to the Council are recognized as revenue upon the receipt of cash or other assets, or of unconditional pledges. Contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recorded when the conditions have been met, and, if received in advance, are recognized in the statements of financial position as funds received in advance. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### [9] Revenue recognition: (continued)

###### (ii) *Restricted grant revenue:*

Revenue received as grants from U.S. government agencies, foundations and corporations is initially recorded as temporarily restricted, if such grants are received with donor stipulations as to their use. Restrictions are generally met when program and administration expenses relating to the designated purpose of the particular contract, grant or award are incurred. As the restrictions are met, the support is reclassified as unrestricted.

###### (iii) *Dues:*

The Council receives dues from its members. Dues applicable to a current year are recognized as revenue in that year, while dues received for a future year's membership are deferred and recognized on a pro-rata basis over the period of membership.

###### (iv) *Subscriptions:*

Payments for subscriptions are recognized as income over the period during which the subscriptions are fulfilled.

###### (v) *Royalties:*

The Council receives royalties from the use of its copyrights by third parties. Revenue from these royalties is recognized when payments are received in cash.

##### [10] Functional allocation of expenses:

The cost of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and of functional expenses. Accordingly, certain costs have been allocated by management among program, general administration and fund-raising categories, using appropriate measurement methodologies.

##### [11] Measure of operations:

The Council includes in its definition of operations all of those revenue and expenses that are an integral part of its programs and supporting activities. Long-term investment returns in excess of (or less than) amounts related to the Council's authorized spending policy, temporarily restricted grant investment income, and the pension-related charges other than periodic costs are recognized as part of non-operating activities.

##### [12] Income tax uncertainties:

The Council is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. Due to the Council's general not-for-profit status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Council's financial statements.

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### [13] Recent accounting pronouncements:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will amend financial-statement presentation and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for years beginning after December 15, 2017. Management is currently evaluating the effect that this new guidance will have on the Council's financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which required that debt-issuance costs related to a recognized debt liability be presented in an entity's statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with the current treatment of debt discounts. ASU 2015-03 was effective for annual reporting periods issued for fiscal years beginning after December 15, 2015. Accordingly, the Council was required to adopt ASU 2015-03 during fiscal-year 2017, which under U.S. GAAP was a change in accounting principle requiring retroactive application in the financial statements. Although the Council's adoption of ASU 2015-03 had no effect of the Council's net assets or its changes in net assets for fiscal-years 2017 and 2016, certain reclassifications were required. Accordingly, the Council reclassified its debt-issuance costs for fiscal-years 2017 and 2016 by \$45,652 and \$53,368, respectively, thereby correspondingly reducing its balance of the bank loan payable in the accompanying statements of financial position. The Council also reclassified as interest expense its amortization of debt-issuance costs of \$7,716 for both fiscal-years 2017 and 2016, respectively.

##### [14] Reclassification:

Certain information included in the prior-year's financial statements has been reclassified to conform to the current-year's financial-statement presentation.

##### [15] Subsequent events:

The Council considers all of the accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after June 30, 2017 through October 27, 2017, the date on which the financial statements were available to be issued.

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE B - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

|                         | June 30,              |                       |                       |                       |
|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                         | 2017                  |                       | 2016                  |                       |
|                         | Fair Value            | Cost                  | Fair Value            | Cost                  |
| Money-market funds      | \$ 30,679,962         | \$ 30,679,962         | \$ 28,452,796         | \$ 28,452,796         |
| Corporate bonds         | 5,017,772             | 5,000,000             |                       |                       |
| Equity securities       | 21,135,485            | 13,628,568            | 18,663,486            | 13,519,093            |
| Mutual funds:           |                       |                       |                       |                       |
| Fixed-income            | 2,266,753             | 3,620,238             | 2,291,594             | 3,620,238             |
| Debt/equities           | 12,977,064            | 9,359,618             | 20,040,323            | 18,067,334            |
| Alternative investments | <u>89,163,009</u>     | <u>53,587,066</u>     | <u>73,598,166</u>     | <u>48,531,265</u>     |
|                         | <u>\$ 161,240,045</u> | <u>\$ 115,875,452</u> | <u>\$ 143,046,365</u> | <u>\$ 112,190,726</u> |

At June 30, 2017, concentrations of the Council's investments in excess of 10% of the fair value of its portfolio included approximately (i) 19% invested in money market funds, (ii) 13% invested in equity securities, and (iii) 55% invested in alternative investments. At June 30, 2016, concentrations of the Council's investments in excess of 10% of the fair value of its portfolio included approximately (i) 20% invested in money market funds, (ii) 13% invested in equity securities, (iii) 16% invested in mutual funds, and (iv) 55% invested in alternative investments.

During each fiscal year, net investment earnings (losses) consisted of the following:

|   | Year Ended June 30, 2017 |                        |                      |
|---|--------------------------|------------------------|----------------------|
|   | Unrestricted             | Temporarily Restricted | Total                |
| Interest and dividends                          | \$ 1,056,027             | \$ 611,315             | \$ 1,667,342         |
| Net realized gains                              | 799,432                  | 462,777                | 1,262,209            |
| Net unrealized gains                            | 9,189,377                | 5,319,577              | 14,508,954           |
| Investment expenses                             | <u>(469,348)</u>         | <u>(269,707)</u>       | <u>(739,055)</u>     |
| Net investment income                           | 10,575,488               | 6,123,962              | 16,699,450           |
| Less: investment returns based on spending rate | <u>(3,610,000)</u>       |                        | <u>(3,610,000)</u>   |
| Gains in excess of authorized spending rate     | <u>\$ 6,965,488</u>      | <u>\$ 6,132,962</u>    | <u>\$ 13,089,450</u> |

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE B - INVESTMENTS (CONTINUED)

|   | Year Ended June 30, 2016 |                        |                       |
|---|--------------------------|------------------------|-----------------------|
|   | Unrestricted             | Temporarily Restricted | Total                 |
| Interest and dividends                          | \$ 349,572               | \$ 207,797             | \$ 557,369            |
| Net realized gains                              | 506,071                  | 281,040                | 787,111               |
| Net unrealized losses                           | (2,414,926)              | (1,354,765)            | (3,769,691)           |
| Investment expenses                             | <u>(314,079)</u>         | <u>(180,482)</u>       | <u>(464,561)</u>      |
| Net investment losses                           | (1,873,362)              | (1,046,410)            | (2,919,772)           |
| Less: investment returns based on spending rate | <u>(4,656,150)</u>       |                        | <u>(4,656,150)</u>    |
| Losses in excess of authorized spending rate    | <u>\$ (6,529,512)</u>    | <u>\$ (1,046,410)</u>  | <u>\$ (7,575,922)</u> |

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value designations. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments at the reporting date.
- Level 2: Valuations are based on (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

Certain of the Council's investments are valued using NAV per share (or its equivalent unit) as a practical expedient of fair value. This applies to investments (i) which do not have a readily determinable fair value and (ii) the financial statements of which were prepared by the respective investment managers, in a manner consistent with the measurement principles of either an investment company or an entity which has the attributes of an investment company. Investments that are valued using NAV per share (or its equivalent unit) are not required to be categorized within the fair-value hierarchy. Accordingly, these NAV-investments and certain related disclosures are no longer required to be included in the accompanying financial statements.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For fiscal-years 2017 and 2016, there were no transfers among the fair-value-hierarchy levels of the Council's investments.

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Notes to Financial Statements June 30, 2017 and 2016

### NOTE B - INVESTMENTS (CONTINUED)

The following tables summarize the fair values of the Council's financial assets at each fiscal year-end, in accordance with ASC Topic 820 valuation levels:

|                         | June 30, 2017                               |                     |                      |                           |                       |
|-------------------------|---|---------------------|----------------------|---------------------------|-----------------------|
|                         | Investments within the Fair-Value Hierarchy |                     |                      | Investments Valued at NAV | Total                 |
|                         | Level 1                                     | Level 2             | Total                |                           |                       |
| Money-market funds      | \$ 30,679,962                               |                     | \$ 30,679,962        |                           | \$ 30,679,962         |
| Corporate bonds         |   | \$ 5,017,772        | 5,017,772            |                           | 5,017,772             |
| Equity securities       | 21,135,485                                  |                     | 21,135,485           |                           | 21,135,485            |
| Mutual funds            | 15,243,817                                  |                     | 15,243,817           |                           | 15,243,817            |
| Alternative investments |   |                     |                      | \$ 89,163,009             | 89,163,009            |
|                         | <u>\$ 67,059,264</u>                        | <u>\$ 5,017,772</u> | <u>\$ 72,077,036</u> | <u>\$ 89,163,009</u>      | <u>\$ 161,240,045</u> |

|                         | June 30, 2016                               |                      |                           |                       |
|-------------------------|---|----------------------|---------------------------|-----------------------|
|                         | Investments within the Fair-Value Hierarchy |                      | Investments Valued at NAV | Total                 |
|                         | Level 1                                     | Total                |                           |                       |
| Money-market funds      | \$ 28,452,796                               | \$ 28,452,796        |                           | \$ 28,452,796         |
| Equity securities       | 18,663,486                                  | 18,663,486           |                           | 18,663,486            |
| Mutual funds            | 22,331,917                                  | 22,331,917           |                           | 22,331,917            |
| Alternative investments |   |                      | \$ 73,598,166             | 73,598,166            |
|                         | <u>\$ 69,448,199</u>                        | <u>\$ 69,448,199</u> | <u>\$ 73,598,166</u>      | <u>\$ 143,046,365</u> |

The following table describes the funding commitment and redemption information for the Council's alternative investments:

|                             | Fair Value    | Unfunded Commitments | Redemption Frequency | Redemption Notice Period   |
|-----------------------------|---------------|----------------------|----------------------|--|
| Limited partnerships        | \$ 74,074,833 | \$ 32,500            | Quarterly - Annually | Redemptions vary among the different investments from semi-annually and quarterly through termination of the investment vehicle. |
| Limited liability companies | \$ 15,088,176 | None                 | Quarterly - Annually | Redemptions vary among the different investments from semi-annually and quarterly through termination of the investment vehicle. |

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE C - GRANTS AND ACCOUNTS RECEIVABLE

[1] At each fiscal-year end, grants receivable were estimated to be due as follows:

|  | <u>June 30,</u>      |                      |
|--|----------------------|----------------------|
|  | <u>2017</u>          | <u>2016</u>          |
| One year or less   | \$ 11,341,735        | \$ 8,537,737         |
| One to five years  | <u>1,831,906</u>     | <u>5,686,020</u>     |
|  | 13,173,641           | 14,223,757           |
| Reduction of grants receivable due in excess of<br>one year to present value at a rate of 4% | <u>(160,974)</u>     | <u>(482,822)</u>     |
|  | <u>\$ 13,012,667</u> | <u>\$ 13,740,935</u> |

Based on the Council's prior experience with donors, management expects to collect the receivables in full and, accordingly, has not established an allowance for uncollectible grants.

[2] At each year-end, other accounts receivable consisted of amounts due to the Council for exchange-type transactions. All amounts are due within one year. Based on the Council's prior experience, amounts of approximately \$8,400 and \$199,000 for fiscal-years 2017 and 2016, respectively, are reserved for doubtful collections.

#### NOTE D - PROPERTY AND EQUIPMENT

At each fiscal-year end, property and equipment consisted of the following:

|                                | <u>June 30,</u>     |                     |
|--------------------------------|---------------------|---------------------|
|                                | <u>2017</u>         | <u>2016</u>         |
| Building and improvements      | \$ 4,862,770        | \$ 4,771,936        |
| Equipment                      | 1,339,982           | 1,177,262           |
| Furniture and fixtures         | <u>259,481</u>      | <u>259,481</u>      |
|                                | 6,462,233           | 6,208,679           |
| Less: accumulated depreciation | <u>(3,670,498)</u>  | <u>(3,432,157)</u>  |
|                                | <u>\$ 2,791,735</u> | <u>\$ 2,776,522</u> |

#### NOTE E - FELLOWSHIPS PAYABLE

Fellowships and stipends are awarded to institutions and individuals for the advancement of humanistic studies in all fields of learning. It is the Council's policy, in conjunction with grant agreements, to allow recipients to choose when payments of awards are to be received. Fellowships and stipends are usually paid over a period of one to nine years.



## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE E - FELLOWSHIPS PAYABLE (CONTINUED)

The Council records the expense and commitment of these fellowships and stipends when the awards are approved by the Council and accepted by the recipient. Fellowships and stipends are estimated to be paid as follows:

| <u>Year Ending<br/>June 30,</u> | <u>Amount</u>        |
|---------------------------------|----------------------|
| 2018                            | \$ 14,291,213        |
| 2019                            | 3,315,453            |
| 2020                            | <u>1,313,609</u>     |
|                                 | <u>\$ 18,920,275</u> |

During fiscal-years 2017 and 2016, the Council awarded fellowships and stipends of \$19,427,624 and \$17,781,551, respectively.

#### NOTE F - BANK LOAN PAYABLE

During fiscal-year 2013, the Council obtained a bank loan of \$3,745,000, which matures on May 23, 2023. The loan is subject to certain covenants and bears interest at an initial rate of 3.07%. The interest rate will increase by 0.2% for every \$10,000,000 increment below \$40,000,000 that the Council holds in expendable cash and investments at the anniversary of the date of the loan. As of June 30, 2017 and 2016, the Council was in compliance with all covenants.

Future minimum principal payments due each year under the loan are as follows:

| <u>Year Ending<br/>June 30,</u>    | <u>Amount</u>       |
|------------------------------------|---------------------|
| 2018                               | \$ 243,593          |
| 2019                               | 250,079             |
| 2020                               | 260,352             |
| 2021                               | 266,229             |
| 2022                               | 275,701             |
| Thereafter                         | <u>1,556,957</u>    |
|                                    | 2,852,911           |
| Less: deferred debt-issuance costs | <u>(45,652)</u>     |
|                                    | <u>\$ 2,807,259</u> |

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE G - TEMPORARILY RESTRICTED NET ASSETS

During each fiscal year, the changes in temporarily restricted net assets (including allocation of gains and losses) were as follows:

|   | <u>Balance<br/>July 1,<br/>2016</u> | <u>Program<br/>Support</u> | <u>Release of<br/>Restrictions</u> | <u>Balance<br/>June 30,<br/>2017</u> |
|---|-------------------------------------|----------------------------|------------------------------------|--------------------------------------|
| Fellowship programs                                     | \$ 26,852,693                       | \$ 10,017,496              | \$ (12,250,521)                    | \$ 24,619,668                        |
| Vietnam Program/CEEVN                                   | 1,634,398                           | 3,820                      | (478,239)                          | 1,159,979                            |
| Special Program   | 1,800,839                           | 6,205,607                  | (2,831,911)                        | 5,174,535                            |
| International programs                                  | 3,177,248                           | 5,716,543                  | (4,159,415)                        | 4,734,376                            |
| Accumulated endowment income reserved for appropriation | <u>3,361,672</u>                    | <u>6,077,118</u>           | <u>(1,295,892)</u>                 | <u>8,142,898</u>                     |
|   | <u>\$ 36,826,850</u>                | <u>\$ 28,020,584</u>       | <u>\$ (21,015,978)</u>             | <u>\$ 43,831,456</u>                 |

|   | <u>Balance<br/>July 1,<br/>2015</u> | <u>Program<br/>Support</u> | <u>Release of<br/>Restrictions</u> | <u>Balance<br/>June 30,<br/>2016</u> |
|---|-------------------------------------|----------------------------|------------------------------------|--------------------------------------|
| Fellowship programs                                     | \$ 15,520,250                       | \$ 23,623,784              | \$ (12,291,341)                    | \$ 26,852,693                        |
| Vietnam Program/CEEVN                                   | 2,134,466                           | 57,492                     | (557,560)                          | 1,634,398                            |
| Special Program   | 2,239,341                           | 887,640                    | (1,326,142)                        | 1,800,839                            |
| International programs                                  | 3,838,686                           | 3,151,558                  | (3,812,996)                        | 3,177,248                            |
| Accumulated endowment income reserved for appropriation | <u>6,104,167</u>                    | <u>(1,076,512)</u>         | <u>(1,665,983)</u>                 | <u>3,361,672</u>                     |
|   | <u>\$ 29,836,910</u>                | <u>\$ 26,643,962</u>       | <u>\$ (19,654,022)</u>             | <u>\$ 36,826,850</u>                 |

#### NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS

##### [1] The endowment:

The Council's endowment was established based on its mission and consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

##### [2] Interpretation of relevant law:

The Board of Directors has interpreted the District of Columbia's UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Council classifies as permanently restricted net assets (i) the original value of gifts donated to the permanent endowment, (ii) the original value of subsequent gifts to the permanent endowment, and (iii) accumulations to the permanent endowment (made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund). The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by the Council, in a manner consistent with the standard of prudence prescribed by UPMIFA.

**AMERICAN COUNCIL OF LEARNED SOCIETIES**

**Notes to Financial Statements  
June 30, 2017 and 2016**

**NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)**

**[2] Interpretation of relevant law: (continued)**

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

- the duration and preservation of the fund;
- the purpose of the organization and the donor-restricted endowment fund;
- general economic conditions and the possible effect of inflation and deflation;
- the expected total return from income and the appreciation in value of the investments; and
- the investment policies of the Council.

**[3] Endowment net-asset composition by type of fund:**

|                                  | <b>June 30, 2017</b> |                               |                               |                       |
|----------------------------------|----------------------|-------------------------------|-------------------------------|-----------------------|
|                                  | <b>Unrestricted</b>  | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          |
| Board-designated endowment funds | \$ 77,334,589        |                               |                               | \$ 77,334,589         |
| Donor-restricted endowment funds |                      | \$ 8,142,898                  | \$ 34,681,959                 | 42,824,857            |
| Total endowment funds            | <u>\$ 77,334,589</u> | <u>\$ 8,142,898</u>           | <u>\$ 34,681,959</u>          | <u>\$ 120,159,446</u> |
|                                  | <b>June 30, 2016</b> |                               |                               |                       |
|                                  | <b>Unrestricted</b>  | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          |
| Board-designated endowment funds | \$ 67,935,462        |                               |                               | \$ 67,935,462         |
| Donor-restricted endowment funds |                      | \$ 3,361,672                  | \$ 34,681,959                 | 38,043,631            |
| Total endowment funds            | <u>\$ 67,935,462</u> | <u>\$ 3,361,672</u>           | <u>\$ 34,681,959</u>          | <u>\$ 105,979,093</u> |

Temporarily restricted endowment represents that portion of allocated investment income derived from permanently restricted endowment assets that has not been appropriated by the Board of Directors for expenditure.

**AMERICAN COUNCIL OF LEARNED SOCIETIES**

**Notes to Financial Statements  
June 30, 2017 and 2016**

**NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)**

**[3] Endowment net-asset composition by type of fund: (continued)**

Net assets were permanently restricted to support the following at each fiscal year-end:

|                                       | June 30,             |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2017                 | 2016                 |
| Central Fellowship Program:           |                      |                      |
| Mellon Foundation                     | \$ 12,300,000        | \$ 12,300,000        |
| Ford Foundation                       | 7,068,400            | 7,068,400            |
| National Endowment for the Humanities | 3,250,000            | 3,250,000            |
| Rockefeller Foundation                | 1,000,000            | 1,000,000            |
| William & Flora Hewlett Foundation    | 500,000              | 500,000              |
| Carnegie Corporation                  | 100,000              | 100,000              |
| Carl and Lily Pforzheimer Foundation  | 180,000              | 180,000              |
| Other                                 | <u>2,395</u>         | <u>2,395</u>         |
|                                       | <u>24,400,795</u>    | <u>24,400,795</u>    |
| Program Administration:               |                      |                      |
| Mellon Foundation                     | 10,000,000           | 10,000,000           |
| Other:                                |                      |                      |
| Lumiansky Fund                        | <u>281,164</u>       | <u>281,164</u>       |
|                                       | <u>\$ 34,681,959</u> | <u>\$ 34,681,959</u> |

**[4] Changes in endowment net assets:**

|                                    | Year Ended June 30, 2017 |                        |                        |                       |
|------------------------------------|--------------------------|------------------------|------------------------|-----------------------|
|                                    | Unrestricted             | Temporarily Restricted | Permanently Restricted | Total                 |
| Net assets, beginning of year      | \$ 67,935,462            | \$ 3,361,672           | \$ 34,681,959          | \$ 105,979,093        |
| Contributions                      | 1,137,748                |                        |                        | 1,137,748             |
| Investment return                  | 10,575,487               | 6,077,118              |                        | 16,652,605            |
| Funds appropriated for expenditure | <u>(2,314,108)</u>       | <u>(1,295,892)</u>     |                        | <u>(3,610,000)</u>    |
| Net assets, end of year            | <u>\$ 77,334,589</u>     | <u>\$ 8,142,898</u>    | <u>\$ 34,681,959</u>   | <u>\$ 120,159,446</u> |
|                                    |                          |                        |                        |                       |
|                                    | Year Ended June 30, 2016 |                        |                        |                       |
|                                    | Unrestricted             | Temporarily Restricted | Permanently Restricted | Total                 |
| Net assets, beginning of year      | \$ 70,976,588            | \$ 6,104,169           | \$ 34,681,959          | \$ 111,762,716        |
| Contributions                      | 1,731,401                |                        |                        | 1,731,401             |
| Investment return                  | (1,873,362)              | (1,076,512)            |                        | (2,949,874)           |
| Funds appropriated for expenditure | <u>(2,899,165)</u>       | <u>(1,665,985)</u>     |                        | <u>(4,565,150)</u>    |
| Net assets, end of year            | <u>\$ 67,935,462</u>     | <u>\$ 3,361,672</u>    | <u>\$ 34,681,959</u>   | <u>\$ 105,979,093</u> |

## AMERICAN COUNCIL OF LEARNED SOCIETIES

### Notes to Financial Statements June 30, 2017 and 2016

#### NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

**[5] Funds with deficiencies:**

Due to unfavorable market fluctuations, from time to time, the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. Under the terms of UPMIFA, the Council has no responsibility to restore such decrease in value. There were no such deficiencies in fiscal-years 2016 or 2015.

**[6] Return objectives and risk parameters:**

The Board of Directors evaluates its long-term asset allocation in meeting its fiduciary responsibilities for funding programs, protecting its endowment resources, and supporting future spending requirements. Accordingly, the board has adopted investment policies for its endowment assets that seek to maintain their purchasing power.

**[7] Strategies employed for achieving objectives:**

To satisfy its long-term, rate-of-return objectives, the Council relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Council targets diversified assets, within prudent risk constraints.

**[8] Spending policy and relation to the spending policy:**

During 2017, the Council changed the policy of appropriating from the endowment from a moving average model spending policy to a constant growth model spending policy. Previously, the Council appropriated for distribution each year, an average of 5% of its endowment fund's average fair value, over the prior 12 quarters through the fiscal year-end proceeding the fiscal year in which the distribution is planned. The new model changes the appropriating from the endowment fund at 3.5% of the fund's average fair value for the previous 3 years and will increment that appropriation modestly (2% of the dollar value of the previous year's appropriation) each subsequent year. It is expected that this policy will safeguard the value of the endowment over time while reducing the annual spending volatility that comes with adjusting endowment draws to varying investment returns.

#### NOTE I - EMPLOYEE-BENEFIT PLANS

**[1] Defined-contribution 403(b) retirement plan:**

For its eligible employees, the Council provides retirement benefits under a defined-contribution, Section 403(b) employee-benefit plan, the assets of which are maintained through the Teachers Insurance and Annuity Association of America - College Retirement Equities Fund. The Council contributes a minimum of 5% of each eligible employee's salary, as well as matches employee contributions up to a maximum of 5% of each eligible employee's salary. Contributions for fiscal-years 2017 and 2016 were \$240,852 and \$214,798, respectively.

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Notes to Financial Statements June 30, 2017 and 2016

### NOTE I - EMPLOYEE-BENEFIT PLANS (CONTINUED)

#### [2] Postretirement medical benefit plan:

The Council sponsors an unfunded, noncontributory, defined-benefit postretirement medical plan that covers employees hired prior to February 1, 1995.

The following sets forth the plan's funded status, reconciled with amounts reported in the Council's financial statements at each-year end:

|  | <u>June 30,</u>       |                       |
|--|-----------------------|-----------------------|
|  | <u>2017</u>           | <u>2016</u>           |
| Actuarial present value of benefit obligations:                                      |                       |                       |
| Expected benefit obligation  | <u>\$ (1,862,083)</u> | <u>\$ (1,979,891)</u> |
| Accumulated postretirement benefit obligation  | <u>\$ (1,862,083)</u> | <u>\$ (1,979,891)</u> |
| Plan assets  | <u>0</u>              | <u>0</u>              |
| Funded status (excess of obligation over assets)                                     | <u>\$ (1,862,083)</u> | <u>\$ (1,979,891)</u> |
| Net periodic postretirement medical benefit costs included the following components: |                       |                       |
| Service cost   | \$ 6,802              | \$ 11,557             |
| Interest cost  | 67,509                | 67,731                |
| Transition obligation amortization   |                       | 6,291                 |
| Net loss amortization  | <u>124,829</u>        | <u>56,043</u>         |
| Net periodic postretirement benefit cost   | <u>\$ 199,140</u>     | <u>\$ 141,622</u>     |
| Adjustments to net assets, reported in the statement of activities:                  |                       |                       |
| Net actuarial loss (gains)   | \$ 88,647             | \$ (427,234)          |
| Unrecognized transition obligation   | <u>124,829</u>        | <u>62,334</u>         |
| Funded status (excess of obligation over assets)                                     | <u>\$ 213,476</u>     | <u>\$ (364,900)</u>   |
| Weighted-average assumptions:  |                       |                       |
| Discount rate  | 3.75%                 | 3.50%                 |
| Medical cost-trend rate  | 6.00%                 | 6.50%                 |

A one percentage-point increase in the assumed health-care cost-trend rates for each fiscal year would have resulted in an increase in the accumulated postretirement benefit obligation of \$224,839 as of June 30, 2017, and an increase in the aggregate service and interest cost components of net periodic postretirement benefit cost of \$9,808 as of June 30, 2017.

Employer contributions and benefits paid were \$103,472 and \$113,948 for fiscal-years 2017 and 2016, respectively. The estimated amount of the Council's contributions for fiscal-year 2018 is \$91,163.

# AMERICAN COUNCIL OF LEARNED SOCIETIES

## Notes to Financial Statements June 30, 2017 and 2016

### NOTE I - EMPLOYEE-BENEFIT PLANS (CONTINUED)

#### [2] Postretirement medical benefit plan: (continued)

The following table illustrates the benefit distributions that are expected to be paid over the next ten fiscal years:

| <u>Year Ending<br/>June 30,</u> | <u>Expected Benefit<br/>Distributions</u> |
|---------------------------------|---|
| 2018                            | \$ 91,163                                 |
| 2019                            | 110,241                                   |
| 2020                            | 111,277                                   |
| 2021                            | 82,775                                    |
| 2022                            | 110,041                                   |
| 2023 - 2027                     | 490,790                                   |

### NOTE J - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Council to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in high-credit-quality financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management believes that the Council does not face a significant risk of loss on these accounts due to the failure of these institutions.

### NOTE K - COMMITMENTS AND CONTINGENCIES

#### [1] Government-funded activities:

U.S. government grants are subject to audit in the future by governmental authorities. Accordingly, the Council could be required to fund any disallowed costs for its own federally supported programs, as well as those of the Council for the International Exchange of Scholars that were incurred during the period of the Council's stewardship. In management's opinion, any such audits would not result in disallowed costs in amounts that would be significant to the Council's operations.

#### [2] Employment agreement:

The Council has an employment agreement with its President from July 1, 2013 through June 30, 2019. Under the terms of the agreement, the President is to receive compensation as President Emeritus participating in the Council's activities for the period extending from July 1, 2019 through June 30, 2020.

#### [3] Other contracts:

In the normal course of business, the Council enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.

### NOTE L - CONCENTRATION OF REVENUE

During fiscal-years 2017 and 2016, approximately 85% and 79% of the Council's total support was provided by one donor, respectively.