



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>
ASSETS		
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>
	<u>\$ 183,337,092</u>	<u>\$ 165,361,766</u>
LIABILITIES AND NET ASSETS		
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	<u>24,651,700</u>	<u>23,087,604</u>
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>
	77,334,589	67,935,462
Undesignated	<u>2,837,388</u>	<u>2,829,891</u>
Total unrestricted	80,171,977	70,765,353
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	<u>158,685,392</u>	<u>142,274,162</u>
	<u>\$ 183,337,092</u>	<u>\$ 165,361,766</u>

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
Operating activities:								
Support:								
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
Contributions:								
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
Total support	27,732,552	753,510		28,486,062	27,695,027	7,926,348		35,621,375
Revenue:								
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
Total revenue	1,227,912	127,134		1,355,046	1,269,166	110,000		1,379,166
Total support and revenue	28,960,464	880,644		29,841,108	28,964,193	8,036,348		37,000,541
Expenses:								
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
Total expenses	26,732,804			26,732,804	25,211,099			25,211,099
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
Non-operating activities:								
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)
Change in net assets	9,406,624	7,004,606		16,411,230	(3,141,318)	6,989,938		3,848,620
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
Net assets, end of year	\$ 80,171,977	\$ 43,831,456	\$ 34,681,959	\$ 158,685,392	\$ 70,765,353	\$ 36,826,850	\$ 34,681,959	\$ 142,274,162

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 Programs	Central Fellowship	Scholarly Publications	General Administration	Fund- 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 Programs</u>	<u>Central Fellowship</u>	<u>Scholarly Publications</u>	<u>General Administration</u>	<u>Fund-raising</u>	<u>Total 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 June 30,	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 16,411,230	\$ 3,848,620
Adjustments to reconcile change in net assets to net cash provided by (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>
Cash flows from investing activities:		
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>
Cash flows from financing activities:		
Bank loan repayments	(232,542)	(225,448)
Net cash used in financing activities	<u>(232,542)</u>	<u>(225,448)</u>
Change in cash	373,245	1,771,275
Cash, beginning of year	<u>5,476,478</u>	<u>3,705,203</u>
Cash, end of year	<u>\$ 5,849,723</u>	<u>\$ 5,476,478</u>
Supplemental disclosure of cash flow information:		
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:

	June 30,	
	2017	2016
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 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:

	June 30,	
	2017	2016
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 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 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:

	Balance July 1, 2016	Program Support	Release of Restrictions	Balance June 30, 2017
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>

	Balance July 1, 2015	Program Support	Release of Restrictions	Balance June 30, 2016
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:

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

	June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 June 30,</u>	<u>Expected Benefit 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.