



AMERICAN COUNCIL OF LEARNED SOCIETIES

FINANCIAL STATEMENTS

JUNE 30, 2010

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the American Council of Learned Societies (the "Council") as of June 30, 2010, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of the American Council of Learned Societies as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
October 29, 2010

AMERICAN COUNCIL OF LEARNED SOCIETIES

Statement of Financial Position June 30, 2010

ASSETS

Cash	\$ 4,918,118
Grants receivable, net	3,151,011
Accounts receivable	301,634
Accrued interest and other assets	46,783
Investments	103,710,535
Property and equipment	3,707,547
Deferred debt issuance costs, net	<u>200,451</u>
	<u>\$ 116,036,079</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 459,059
Accrued post retirement benefit cost	1,569,086
Fellowships payable	14,761,242
Deferred associate dues	154,238
New York City Industrial Development Agency Bonds	<u>4,055,000</u>
	<u>20,998,625</u>

Contingency (see Note L)

Net assets:

Unrestricted:

Board-designated:

As endowment - Central Fellowship Program	32,102,184
Program administration	7,763,108
Undesignated	<u>3,907,998</u>

Total unrestricted 43,773,290

Temporarily restricted 26,102,205

Permanently restricted - endowment 25,161,959

95,037,454

\$ 116,036,079

AMERICAN COUNCIL OF LEARNED SOCIETIES

Statement of Activities Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support:				
U.S. government agencies		\$ 1,009,729		\$ 1,009,729
Foundations and corporations		19,600,479		19,600,479
Contributions:				
Individuals	\$ 162,265	40,000	\$ 15,000	217,265
University consortium	1,600,000			1,600,000
Net assets released from program restrictions	<u>17,188,930</u>	<u>(17,188,930)</u>		<u>0</u>
Total support	<u>18,951,195</u>	<u>3,461,278</u>	<u>15,000</u>	<u>22,427,473</u>
Revenue and investment income:				
Net investment income	9,485,076	74,193		9,559,269
Dues	1,064,340			1,064,340
Subscriptions		808,849		808,849
Royalties	73,683	37,252		110,935
Other	<u>30,916</u>			<u>30,916</u>
Total revenue and investment income	<u>10,654,015</u>	<u>920,294</u>		<u>11,574,309</u>
Total support, revenue, and investment income	<u>29,605,210</u>	<u>4,381,572</u>	<u>15,000</u>	<u>34,001,782</u>
Expenses:				
Fellowships and other direct program costs	19,700,409			19,700,409
Program administration	2,025,956			2,025,956
Fund-raising	<u>57,000</u>			<u>57,000</u>
Total expenses	<u>21,783,365</u>			<u>21,783,365</u>
Change in net assets before pension-related charges other than periodic costs	7,821,845	4,381,572	15,000	12,218,417
Pension-related charges other than periodic costs	<u>(13,447)</u>			<u>(13,447)</u>
Increase in net assets	7,808,398	4,381,572	15,000	12,204,970
Net assets, beginning of year, as restated (see Note A[16])	<u>35,964,892</u>	<u>21,720,633</u>	<u>25,146,959</u>	<u>82,832,484</u>
Net assets, end of year	<u>\$ 43,773,290</u>	<u>\$ 26,102,205</u>	<u>\$ 25,161,959</u>	<u>\$ 95,037,454</u>

AMERICAN COUNCIL OF LEARNED SOCIETIES

Statement of Functional Expenses Year Ended June 30, 2010

	Fellowships and Other Direct Program Costs	Program Administration	Fund- raising	Total
Central fellowships (endowed)	\$ 2,123,481			\$ 2,123,481
Other fellowships and stipends	12,518,282			12,518,282
Salaries and employee benefits	2,349,457	\$ 840,727	\$ 46,861	3,237,045
Meetings, conferences and travel	761,761	241,702		1,003,463
Beijing support	698,982	40,000		738,982
Consultants, honoraria and professional fees	333,808	219,489	2,500	555,797
Office expense	267,347	133,210	7,639	408,196
Authors' fees and royalties	286,066			286,066
Depreciation and amortization		267,165		267,165
Interest expense		220,500		220,500
Printing, publishing and reports	177,877	66,624		244,501
Rent and maintenance	14,043	103,853		117,896
Dues	735	58,302		59,037
Miscellaneous	604	2,350		2,954
Overhead allocation	167,966	(167,966)		0
	<u>\$ 19,700,409</u>	<u>\$ 2,025,956</u>	<u>\$ 57,000</u>	<u>\$ 21,783,365</u>

AMERICAN COUNCIL OF LEARNED SOCIETIES

Statement of Cash Flows Year Ended June 30, 2010

Cash flows from operating activities:	
Increase in net assets	\$ 12,204,970
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	267,165
Net change in unrealized gains on fair value of investments	(8,508,678)
Net realized losses on sales of investments	95,803
Donated securities	(26,876)
Permanently restricted contributions	15,000
Changes in:	
Grants receivable, net	734,979
Accounts receivable	3,588
Accrued interest and other assets	157,144
Accounts payable and accrued expenses	(18,832)
Accrued post retirement benefit	98,263
Fellowships payable	3,290,522
Deferred associate dues	<u>154,238</u>
Net cash provided by operating activities	<u>8,467,286</u>
Cash flows from investing activities:	
Proceeds from sales of investments	28,588,988
Purchases of investments	(34,603,027)
Purchases of property and equipment	<u>(40,777)</u>
Net cash used in investing activities	<u>(6,054,816)</u>
Cash flows from financing activities:	
Permanently restricted contributions	(15,000)
Bond principal repayments	<u>(145,000)</u>
Net cash used in financing activities	<u>(160,000)</u>
Increase in cash and cash equivalents	2,252,470
Cash and cash equivalents, beginning of year	<u>2,665,648</u>
Cash and cash equivalents, end of year	<u>\$ 4,918,118</u>
Supplemental disclosure of cash flow information:	
Interest paid during the year	\$ 220,500

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

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 and by federal grants (principally from the National Endowment for the Humanities and the U.S. Department of State). 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, as applicable to not-for-profit entities.

[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, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Functional allocation of expenses:

The cost of providing the various programs and supporting services has been summarized on a functional basis in the accompanying statement of activities. Accordingly, expenses have been allocated among the programs and supporting services using appropriate measurement methodologies developed by management.

[5] Grants and accounts receivable:

Grants and accounts receivable are recorded as revenue at the earlier of the receipt of an unconditional pledge or the receipt of cash or other assets. Receivables are considered available for unrestricted use, unless the donors restrict the use thereof, either on a temporary or permanent basis. Receivables to be received over periods greater than one year are discounted at an appropriate interest rate. Revenue has been recognized based on the present value of the estimated future payments to be made to the Council.

[6] Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the accompanying statements of financial position, with realized and unrealized gains and losses included in the accompanying statements of activities. The Council's bond and equity mutual funds are also reported at their fair values, as determined by the related investment manager or advisor. Donated securities are recorded at their fair values, at the dates of donation.

The Council has investments in certain not-readily-marketable securities which are ownership interests in private equity securities and certain limited partnerships for which market values are not readily obtainable. Because of the inherent uncertainty of the valuation of these investments, the Council and its various

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Investments: (continued)

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. The estimated values provided by these managers may differ from actual values had a ready market for these investments existed.

Investment transactions are recorded on a trade-date basis. Realized gains or losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. The earnings from dividends and interest are recognized when earned.

Investment expenses include the services of 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.

[7] Property and equipment:

Property and equipment are stated at their costs at the dates of acquisition. Building improvements are also capitalized, whereas costs of repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 30 years.

[8] Deferred debt issuance costs:

The cost associated with the issuance of New York City Industrial Development Agency Bonds has been capitalized and is being amortized over the life of the bonds on a straight-line basis. Amortization of deferred debt issuance was \$11,677 during fiscal year 2010.

[9] Accrued vacation:

Based on their tenure, employees are entitled to be paid for unused vacation time if they leave the Council. The accrued vacation obligation was approximately \$211,000 for fiscal-year 2010 and was reported as part of accrued expenses in the accompanying statement of financial position.

[10] Net assets:

The accompanying statement of activities presents the changes in the various classifications of net assets for fiscal-year 2010. The Council's net assets, and the changes therein, are classified based on the existence or absence of donor-imposed restrictions and are reported as follows:

(a) Unrestricted:

Unrestricted net assets represent those resources not subject to donor-imposed restrictions. Substantially all of the Council's unrestricted net assets, exclusive of the amounts representing the property and equipment, have been allocated by formal resolution of the Board of Directors to board-designated endowment, the unrestricted earnings of which will be applied to 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.

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Net assets: (continued)

(b) Temporarily restricted:

Temporarily restricted net assets represent those resources that have been restricted by donors to specific purposes. They consist mostly of grants, primarily from governmental and private-sector sources, that are available for the support of specific program activities as stipulated in the grantor agreements. Net assets released from restrictions represent the satisfaction of the restricted purposes specified.

(c) Permanently restricted:

Permanently restricted net assets represent the corpus of gifts and grants accepted with the stipulation that the principal be maintained in perpetuity, and earnings from investments and net investment gains thereof be available for the Council's programs and other purposes.

[11] Revenue recognition:

- (a) Restricted revenue received from U.S. government agencies, foundations and corporations is initially recorded as temporarily restricted upon the receipt of cash or unconditional obligations to give. As the restrictions are met, the support is reclassified as unrestricted. Restrictions are generally met when program and administration expenses relating to the designated purpose of the particular contract, grant or award are incurred.
- (b) The Council receives dues from its members. Dues applicable to a current year are recognized as revenue in that year. Dues received for a future year's membership are deferred and recognized on a pro-rata basis over the period of membership.

[12] Endowment funds:

The Council reports all applicable disclosures of its Board-designated and donor-restricted funds treated as endowment (see Note H).

[13] Income tax uncertainties:

In 2009, the Council adopted the provisions of Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Because of the Council's general tax-exempt status, ASC 740-10-05 has not had, and is not anticipated to have, a material impact on the Council's financial statements.

[14] Fair-value measurement:

The Council reports a fair-value measurement of all applicable assets and liabilities (see Note B).

[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 the fiscal year-end through the date of the independent auditors' report.

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[16] Restatement of beginning net assets:

The June 30, 2009 net assets have been restated to properly reflect additional grants receivable of \$3,648,000 not previously recorded.

NOTE B - INVESTMENTS

At June 30, 2010, investments consisted of the following:

	<u>Fair Value</u>	<u>Cost</u>
Money-market funds	\$ 23,586,915	\$ 23,586,915
Certificates of deposit	5,176,088	5,176,088
Equity securities	22,163,468	21,672,683
Mutual funds	18,184,116	20,407,152
Limited partnerships	31,048,134	26,635,663
Private equity investment	<u>3,551,814</u>	<u>2,773,425</u>
	<u>\$ 103,710,535</u>	<u>\$ 100,251,926</u>

The Council owns shares of a privately held, offshore company, the sole purpose of which is to be a limited partner in a limited-partnership investment vehicle. At June 30, 2010, the investment was valued at \$3,551,814. The Council's percentage of ownership of this investment does not warrant consolidation of the financial statements of the privately held company.

During fiscal-year 2010, net investment income consisted of the following:

Interest and dividends	\$ 1,446,794
Net realized losses	(95,803)
Net unrealized gains	8,508,678
Less: investment expenses	<u>(300,400)</u>
	<u>\$ 9,559,269</u>

ASC 820-10-05 establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon 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 identical assets and liabilities at the reporting date. The types of investments and other assets included in Level 1 are exchange-traded debt and equity securities, short-term money-market funds, and actively traded obligations issued by the U.S. government and government agencies.

Level 2: Valuations are based on (i) quoted prices for similar assets or liabilities in active markets, or (ii) quoted prices for identical or similar assets or liabilities 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 2 assets include U.S. government and agency securities and corporate debt securities that are redeemable at or near the balance sheet date and for which a model was derived for valuation.

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE B - INVESTMENTS (CONTINUED)

Level 3: Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. Level 3 assets include securities in privately held companies, secured notes, private corporate bonds, and limited partnerships, the underlying investments of which could not be independently valued, or cannot be immediately redeemed at or near the fiscal year-end.

Most investments classified in Level 3 consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Council's interest therein, its classification in Level 3 is based on the Council's ability to redeem its interest at or near its fiscal year-end. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair-value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table summarizes the fair values of the Council's assets at June 30, 2010, in accordance with the ASC 820-10-05 valuation levels.

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Money-market funds	\$ 23,586,915		\$ 23,586,915
Certificates of deposit	5,176,088		5,176,088
Equity securities	22,163,468		22,163,468
Mutual funds	18,184,116		18,184,116
Limited partnerships		\$ 31,048,134	31,048,134
Private equity investment		<u>3,551,814</u>	<u>3,551,814</u>
Total investments	<u>\$ 69,110,587</u>	<u>\$ 34,599,948</u>	<u>\$ 103,710,535</u>

The following table summarizes the changes in fair values of the Council's Level 3 investments during fiscal-year 2010:

	<u>Limited Partnerships</u>	<u>Private Equity Investment</u>	<u>Total</u>
Balance at July 1, 2009	\$ 18,117,439	\$ 3,130,326	\$ 21,247,765
Net purchases	10,507,500		10,507,500
Net sales	(436,818)		(436,818)
Realized losses	(152,975)		(152,975)
Unrealized gains	<u>3,012,988</u>	<u>421,488</u>	<u>3,434,476</u>
Balance at June 30, 2010	<u>\$ 31,048,134</u>	<u>\$ 3,551,814</u>	<u>\$ 34,599,948</u>

The following table lists investments in other investment companies, by major category, at June 30, 2010:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited partnerships	\$ 31,048,134	\$ 92,500	Quarterly - Annually Daily	30 days to termination
Private equity investments	<u>3,551,814</u>	None		30 days
	<u>\$ 34,599,948</u>	<u>\$ 92,500</u>		

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE C - GRANTS AND ACCOUNTS RECEIVABLE

[1] The Council has recorded as grants receivable those amounts that have been promised to the Council as of June 30, 2010, but that have not yet been collected as of that date. At June 30, 2010, the receivables were estimated to be due as follows:

<u>Year Ending June 30,</u>	
2011	\$ 1,909,627
2012	1,199,210
2013	<u>149,210</u>
	3,258,047
Reduction of pledges due in excess of one year to present value, at discount rate of 4%	<u>(107,036)</u>
	<u>\$ 3,151,011</u>

[2] The Council's accounts receivable for fiscal year 2010 was \$301,634.

NOTE D - PROPERTY AND EQUIPMENT

At June 30, 2010, property and equipment consisted of the following:

Building and improvements	\$ 4,716,861
Equipment	831,928
Furniture and fixtures	<u>232,382</u>
	5,781,171
Less: accumulated depreciation	<u>(2,073,624)</u>
	<u>\$ 3,707,547</u>

Depreciation expense for fiscal-year 2010 was \$255,488.

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, 2010

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>
2011	\$ 8,131,044
2012	2,421,272
2013	<u>4,208,926</u>
	<u>\$ 14,761,242</u>

During fiscal-year 2010, the Council awarded fellowships and stipends of \$14,641,763.

NOTE F- NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY BONDS

To finance the acquisition of office space to be used as the Council's place of operations, in August 2002, the Council borrowed \$5,000,000 through the issuance, by the New York City Industrial Development Agency ("IDA"), of Civic Facility Revenue Bonds, Series 2002 (the "Bonds"). The Bonds, in an aggregate original face amount of \$5,000,000, mature on July 1, 2027 and bear interest at 5.250%. The Bonds may be redeemed by IDA or the Council at any time after July 1, 2012. The Bond indenture requires the Council to make annual sinking-fund payments in amounts sufficient to permit the redemption of principal upon maturity.

Sinking fund payments began on July 1, 2003 and are required every July 1 thereafter until July 1, 2027, as summarized below:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 150,000
2012	160,000
2013	170,000
2014	175,000
2015	185,000
Thereafter	<u>3,215,000</u>
	<u>\$ 4,055,000</u>

In connection with the issuance of the Bonds, the Council leased its properties to IDA for the duration of the debt, for a nominal rental, and concurrently leased the property back from IDA for the same period at a rental equal to annual debt service. The Council guarantees payment of rent under the lease agreement. Pursuant to the lease, the Council is required to maintain a Debt Service Reserve Fund. For the year ended June 30, 2010, \$145,000 had been paid to the Debt Service Reserve Fund.

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[3] Endowment net-asset composition by type of fund as of June 30, 2010: (continued)

At June 30, 2010, net assets were permanently restricted to support the following:

Central Fellowship Program:	
Mellon Foundation	\$ 12,300,000
Ford Foundation	7,068,400
National Endowment for the Humanities	2,750,000
Rockefeller Foundation	1,000,000
William & Flora Hewlett Foundation	500,000
Carnegie Corporation	100,000
Carl and Lily Pforzheimer Foundation	160,000
Other	<u>2,395</u>
	23,880,795
Program Administration:	
Mellon Foundation	1,000,000
Other:	
Lumiansky Fund	<u>281,164</u>
	<u>\$ 25,161,959</u>

[4] Changes in endowment net assets, for fiscal-year 2010:

	<u>Central Fellowship Program</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 25,443,886	\$ 25,146,959	\$ 50,590,845
Contributions	1,762,265	15,000	1,777,265
Investment return	3,802,411	3,758,029	7,560,440
Funds appropriated for expenditure	(2,568,481)		(2,568,481)
Transfers	<u>3,758,029</u>	<u>(3,758,029)</u>	
Net assets, end of year	<u>\$ 32,198,110</u>	<u>\$ 25,161,959</u>	<u>\$ 57,360,069</u>

[5] 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 the purchasing power.

[6] 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.

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[7] Spending policy and relation to the spending policy:

The Council has a policy of appropriating 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. This is consistent with the Council's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

NOTE I - EMPLOYEE-BENEFIT PLAN

For its eligible employees, the Council provides retirement benefits under a defined-contribution, §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-year 2010 were \$190,746.

NOTE J - 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 as of June 30, 2010, reconciled with amounts reported in the Council's financial statements:

Actuarial present value of benefit obligations:	
Expected benefit obligation	<u>\$ (1,658,274)</u>
Accumulated postretirement benefit obligation	\$ (1,569,086)
Plan assets	<u>0</u>
Funded status (excess of obligation over assets)	<u>\$ (1,569,086)</u>
Net periodic postretirement medical benefit costs included the following components:	
Service cost	\$ 26,651
Interest cost	82,095
Transition obligation amortization	25,142
Net loss amortization	<u>44,836</u>
Net periodic postretirement benefit cost	<u>\$ 178,724</u>
Adjustments to net assets, reported in the statement of activities:	
Net actuarial loss	\$ (83,425)
Unrecognized transition obligation	<u>69,978</u>
Funded status (excess of obligation over assets)	<u>\$ (13,447)</u>
Weighted-average assumptions:	
Discount rate	5.00%
Medical cost-trend rate	5.00%

AMERICAN COUNCIL OF LEARNED SOCIETIES

Notes to Financial Statements June 30, 2010

NOTE J - POSTRETIREMENT MEDICAL BENEFIT PLAN (CONTINUED)

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 as of June 30, 2010 of \$118,157 and an increase in the aggregate cost components of net period postretirement benefit cost of \$8,697.

Employer contributions and benefits paid were \$93,909 for fiscal-year 2010. The estimated amount of the Council's contributions for fiscal-year 2011 is \$88,200.

The following table illustrates the benefit distributions that would be paid over the next 10 fiscal years:

<u>Year Ending June 30,</u>	<u>Expected Benefit Distributions</u>
2011	\$ 88,200
2012	93,100
2013	98,200
2014	115,100
2015	111,700
2016 - 2020	591,800

NOTE K - CONCENTRATION OF CREDIT RISK

The Council places its temporary cash investments with high-credit-quality financial institutions in amounts which, at times, may exceed federally insured limits. Management believes that the Council is not subject to a significant risk of loss on these accounts.

NOTE L - CONTINGENCY

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 for the Council for the International Exchange of Scholars 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.

The Council is subject to litigation in the routine course of conducting business. In management's opinion, however, there is no current litigation the outcome of which would have a material adverse impact on the Council's financial position.