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## **INDEPENDENT AUDITORS' REPORT**

October 28, 2016

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, 2016 and 2015, 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 audit 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

## INDEPENDENT AUDITORS' REPORT CONTINUED

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, 2016 and 2015, 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.

*EisnerAmper LLP*

New York, New York

## STATEMENTS OF FINANCIAL POSITION

American Council of Learned Societies	June 30, 2016	June 30, 2015
<b>ASSETS</b>		
Cash	\$ 5,476,478	\$ 3,705,203
Grants receivable, net	13,740,935	1,331,308
Accounts receivable, net	307,402	600,427
Accrued interest and other assets	14,064	21,375
Endowment investments	105,979,093	111,762,716
Other investments	37,067,272	40,249,815
Property and equipment	2,776,522	2,868,999
Deferred debt-issuance costs, net	53,368	61,084
	<b>^ \$ 165,415,134</b>	<b>^ \$ 160,600,927</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 812,611	\$ 832,106
Accrued postretirement benefit cost	1,979,891	1,587,317
Fellowships payable	16,630,595	15,683,916
Deferred revenues	632,422	761,145
Bank loan payable	3,085,453	3,310,901
Total liabilities	<b>^ 23,140,972</b>	<b>^ 22,175,385</b>
Commitments and contingencies (Note K)		
Net assets:		
Unrestricted:		
Board-designated endowment:		
Central Fellowship Program	47,770,077	51,303,673
Program administration	20,165,385	19,672,915
	<b>^ 67,935,462</b>	<b>^ 70,976,588</b>
Undesignated	2,829,891	2,930,083
Total unrestricted	<b>^ 70,765,353</b>	<b>^ 73,906,671</b>
Temporarily restricted	36,826,850	29,836,912
Central Fellowship permanently restricted endowment	24,400,795	24,400,795
Program administration permanently restricted endowment	10,281,164	10,281,164
Total net assets	<b>^ 142,274,162</b>	<b>^ 138,425,542</b>
	<b>^ \$ 165,415,134</b>	<b>^ \$ 160,600,927</b>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

American Council of Learned Societies	Year Ended June 30, 2016				Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support:</b>								
U.S. government agencies		\$ 91,820		\$ 91,820		\$ 82,508	\$ 125,000	\$ 207,508
Foundations		27,598,550		27,598,550	\$ 6,500	12,931,009		12,937,509
Contributions:								
Individuals	\$ 519,210			519,210	270,803			270,803
University consortium	1,700,000			1,700,000	1,700,000			1,700,000
Net assets released from program restrictions	19,654,022	(19,654,022)		0	20,713,385	(20,713,385)		0
<b>Total support</b>	<b>21,873,232</b>	<b>8,036,348</b>		<b>29,909,580</b>	<b>22,690,688</b>	<b>(7,699,868)</b>	<b>125,000</b>	<b>15,115,820</b>
<b>Revenue and investment income:</b>								
Other investment income		30,102		30,102		32,651		32,651
Endowment investment income	(1,873,362)	(1,076,512)		(2,949,874)	481,290	284,590		765,880
Membership dues	1,230,345			1,230,345	1,275,633			1,275,633
Humanities E-Book subscriptions	900,620			900,620	1,012,213			1,012,213
Royalties	180,924			180,924	182,593			182,593
Placement fee income	110,000			110,000				
Other	12,922			12,922	35,519	576		36,095
<b>Total revenue and investment income</b>	<b>561,449</b>	<b>(1,046,410)</b>		<b>(484,961)</b>	<b>2,987,248</b>	<b>317,817</b>		<b>3,305,065</b>
<b>Total support, revenue, and investment income</b>	<b>22,434,681</b>	<b>6,989,938</b>		<b>29,424,619</b>	<b>25,677,936</b>	<b>(7,382,051)</b>	<b>125,000</b>	<b>18,420,885</b>
<b>Expenses:</b>								
Fellowships and other direct program costs	17,976,008			17,976,008	19,142,925			19,142,925
Central Fellowship	3,683,655			3,683,655	3,654,394			3,654,394
Scholarly publications	1,192,123			1,192,123	1,205,261			1,205,261
General administration	2,229,991			2,229,991	1,712,746			1,712,746
Fund-raising	129,322			129,322	187,558			187,558
<b>Total expenses</b>	<b>25,211,099</b>			<b>25,211,099</b>	<b>25,902,884</b>			<b>25,902,884</b>
Change in net assets before pension-related charges other than periodic costs	(2,776,418)	6,989,938		4,213,520	(224,948)	(7,382,051)	125,000	(7,481,999)
Pension-related charges other than periodic costs	(364,900)			(364,900)	136,875			136,875
<b>Change in net assets</b>	<b>(3,141,318)</b>	<b>6,989,938</b>		<b>3,848,620</b>	<b>(88,073)</b>	<b>(7,382,051)</b>	<b>125,000</b>	<b>(7,345,124)</b>
Net assets, beginning of year	73,906,671	29,836,912	\$ 34,681,959	138,425,542	73,994,744	37,218,963	34,556,959	145,770,666
<b>Net assets, end of year</b>	<b>\$ 70,765,353</b>	<b>\$ 36,826,850</b>	<b>\$ 34,681,959</b>	<b>\$ 142,274,162</b>	<b>\$ 73,906,671</b>	<b>\$ 29,836,912</b>	<b>\$ 34,681,959</b>	<b>\$ 138,425,542</b>

See notes to financial statements.

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STATEMENTS OF FUNCTIONAL EXPENSES for the Year Ended June 30, 2016

American Council of Learned Societies	Year Ended June 30, 2016 (with summarized information for 2015)					Totals	
	Grant Programs	Central Fellowship	Scholarly Publications	General Administration	Fund-Raising	2016	2015
Central fellowships (endowed)		\$ 3,283,653				\$ 3,283,653	\$ 3,256,396
Fellowships and grants	\$ 14,492,898		\$ 5,000			14,497,898	15,158,489
Salaries	1,688,035	233,776	157,344	\$ 700,316	\$ 48,445	2,827,916	2,727,754
Retirement plan	107,813	23,378	15,734	63,028	4,845	214,798	202,753
Other employee benefits	383,717	42,898	25,298	88,633	8,890	549,436	601,246
Payroll taxes	80,039	17,884	12,037	42,019	3,706	155,685	145,843
Legal							5,000
Auditing				57,616		57,616	62,061
Other professional fees	258,606	29,387	193,703	67,029	55,903	604,628	734,349
Advertising	10,262		4,725			14,987	4,382
Office expense	49,329	3,144	15,850	114,004	5,515	187,842	198,311
Information technology	195,362	7,908	32,011	211,479	584	447,344	456,851
Royalties			454,429			454,429	435,836
Occupancy	10,312	11,259		139,149	831	161,551	167,810
Travel	308,539	13,101	19,876	100,145	72	441,733	488,128
Conferences and meetings	194,607	13,319	36,881	224,494	150	469,451	500,086
Interest expense				100,124		100,124	106,754
Depreciation and amortization				224,989		224,989	214,403
Insurance				39,247		39,247	30,368
Printing, publishing and reports			152,871	35,644		188,515	308,494
Dues and subscriptions	8,785	3,948	3,665	62,619	291	79,308	76,803
Bad dept expense			5,331	193,390		198,721	0
Miscellaneous	4,160			6,978	90	11,228	20,767
Overhead allocation	183,544		57,368	(240,912)		0	0
	\$ 17,976,008	\$ 3,683,655	\$ 1,192,123	\$ 2,229,991	\$ 129,322	\$ 25,211,099	\$ 25,902,884

See notes to financial statements.

**STATEMENTS OF FUNCTIONAL EXPENSES** for the Year Ended June 30, 2015

American Council of Learned Societies	Year Ended June 30, 2015					
	Grant Programs	Central Fellowship	Humanities E-Book	Program Administration	Fund-Raising	Total 2015
Central fellowships (endowed)		\$ 3,256,396				\$ 3,256,396
Fellowships and grants	\$ 15,158,489					15,158,489
Salaries	1,886,924	224,197	\$ 114,933	\$ 455,136	\$ 46,564	2,727,754
Retirement plan	125,520	22,420	9,195	40,962	4,656	202,753
Other employee benefits	424,488	42,642	27,986	98,051	8,079	601,246
Payroll taxes	93,581	17,151	8,792	22,757	3,562	145,843
Legal				5,000		5,000
Auditing				62,061		62,061
Other professional fees	284,903	31,010	208,716	100,076	109,644	734,349
Advertising	2,267		2,115			4,382
Office expense	65,886	6,509	16,913	105,213	3,790	198,311
Information technology	199,488	15,139	13,947	228,277		456,851
Royalties			435,836			435,836
Occupancy	12,799	10,394		144,617		167,810
Travel	366,871	11,377	11,399	94,314	4,167	488,128
Conferences and meetings	243,327	11,853	27,922	213,688	3,296	500,086
Interest expense				106,754		106,754
Depreciation and amortization				214,403		214,403
Insurance		2,036		28,332		30,368
Printing, publishing and reports	16,501	1,875	264,032	26,086		308,494
Dues and subscriptions	1,116	689	5,566	65,632		76,803
Miscellaneous	8,134	706	541	11,386	3,800	20,767
Overhead allocation	252,631		57,368	(309,999)		0
	\$ 19,142,925	\$ 3,654,394	\$ 1,205,261	\$ 1,712,746	\$ 187,558	\$ 25,902,884

See notes to financial statements.

## STATEMENTS OF CASH FLOWS

American Council of Learned Societies	Year Ended June 30, 2016	Year Ended June 30, 2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 3,848,620	\$ (7,345,124)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	224,989	214,403
Bad debt expense	198,721	130,451
Net unrealized losses on fair value of investments	3,769,691	3,236,199
Net realized gains on sales of investments	(787,111)	(3,914,008)
Donated securities	(15,099)	
Proceeds from sales of donated securities	15,099	
Permanently restricted contributions		(125,000)
Changes in:		
Accounts receivable	94,304	(311,704)
Grants receivable	(12,409,627)	1,403,248
Accrued interest and other assets	7,311	3,742
Accounts payable and accrued expenses	(19,495)	155,780
Accrued post-retirement benefit	392,574	(56,001)
Fellowships payable	946,679	2,816,934
Deferred revenues	(128,723)	40,420
Net cash used in operating activities	^ (3,862,067)	^ (3,750,660)
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	22,089,172	24,741,520
Purchases of investments	(16,105,586)	(23,916,647)
Purchases of property and equipment	(124,796)	(93,459)
Net cash provided by investing activities	^ 5,858,790	^ 731,414
<b>Cash flows from financing activities:</b>		
Permanently restricted contributions		125,000
Bank loan repayments	(225,448)	(218,457)
Net cash used in financing activities	(225,448)	(93,457)
<b>Change in cash</b>	<b>1,771,275</b>	<b>(3,112,703)</b>
Cash, beginning of year	3,705,203	6,817,906
<b>Cash, end of year</b>	^ \$ 5,476,478	^ 3,705,203
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the year	\$ 100,124	\$ 106,754

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

American Council of Learned Societies, June 30, 2016 and 2015

### 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 organizations.

#### 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:

Investments in equity securities with readily determinable fair values 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 mutual funds are also reported at their fair values as determined by management with the assistance of the related investment manager or advisor. Certificates of deposits and cash held by investment advisors for investments are reported as investments in the accompanying statements of financial position.

The Council has investments in certain not-readily-marketable securities, which are ownership interests in alternative investments, consisting of private-equity securities, limited partnerships and limited liability companies, for which readily determinable fair values do not exist. The fair value of the alternative investments has been estimated based on the respective net asset value (“NAV”) per share (or its equivalent unit) as a practical expedient of fair value of each investment, as reported by the investment company fund manager.

Because of the complex management structure and nature of the underlying investments and 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. Management believes the carrying amount of the investments in non-publicly traded securities is a reasonable estimate of fair value. Estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. The Council’s investments in limited partnerships and limited liability companies are valued based on the valuation policies and procedures of the respective general partners or members. Each general partner or member performs oversight of the underlying positions, both on an investment level and from a risk perspective. Each general partner or member is also responsible for ensuring that the investment is valued according to the policies and procedures adopted by that partnership or limited liability company. The Council places reliance upon those procedures and it records those investments at fair value as determined by the respective general partners or members.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

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.

Donated securities are recorded at their estimated fair values at the dates of donation. The Council's policy is to sell donated securities immediately, and, accordingly, for purposes of the statement of cash flows, donated securities and the proceeds generated from their sale are included as operating activities.

### 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. 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:

During fiscal-year 2013, the Council obtained a bank loan and incurred \$77,159 in debt-issuance costs in the process. Aggregate costs relating to the issuance of loans, included within the accompanying statements of financial position, are being amortized over the term of the debt, using the effective-interest method. Amortization of these deferred debt-issuance costs was \$7,716 for both fiscal-years 2016 and 2015, respectively.

### 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, 2016 and 2015, the accrued vacation obligation was approximately \$291,000 and \$278,000, 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,

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

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.

(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, management and general and fund-raising categories, using appropriate measurement methodologies.

### 11. 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.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

### 12. 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 presentations 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 is effective for fiscal years beginning after December 15, 2017.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt-issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, which is consistent with the current treatment of debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015.

The Council has chosen not to early-adopt either pronouncement.

### 13. 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, 2016 through October 28, 2016, the date on which the financial statements were available to be issued.

## NOTE B – INVESTMENTS

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

	June 30, 2016		June 30, 2015	
	Fair Value	Cost	Fair Value	Cost
Money-market funds	\$ 28,452,796	\$ 28,452,796	\$ 13,301,846	\$ 13,301,846
Certificates of deposit			1,410,383	1,410,383
Equity securities	18,663,486	13,519,093	21,306,689	15,338,338
Mutual funds:				
Fixed-income	2,291,594	3,620,238	2,567,952	3,620,238
Debt/equities	20,040,323	18,067,334	38,372,760	36,095,131
Alternative investments	73,598,166	48,531,265	75,052,901	47,621,265
	\$143,046,365	\$112,190,726	\$152,012,531	\$117,387,201

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

	Year Ended June 30, 2016	Year Ended June 30, 2015
Interest and dividends	\$ 557,369	\$ 681,251
Net realized gains	787,111	3,914,008
Net unrealized losses	(3,769,691)	(3,236,199)
Less: investment expenses	(494,561)	(560,529)
	\$ (2,919,772)	\$ 798,531

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

ASC Topic 820, *Fair Value Measurements and Disclosures*, 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 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 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.

In addition, ASC Topic 820 removes the requirement to categorize within the fair-value hierarchy all investments for which fair value is measured using NAV per share as a practical expedient. Accordingly, these investments are not categorized within the fair value hierarchy and certain related tables have been properly excluded from the notes to the accompanying financial statements.

Certain of the Council's investments are valued using NAV as a practical expedient of fair value. The Council uses NAV to measure the fair values of the private equity securities, limited partnerships, and limited liability companies. The use of the practical expedient is applicable for investments which (i) do not have a readily determinable fair value and (ii) the financial statements of which were prepared by the respective investment managers, consistent with the measurement principles of an investment company or that have the attributes of an investment company.

The Council's investments are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, 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.

The available 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. However, during fiscal-years 2016 and 2015, there were no transfers among the fair-value levels.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

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

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
	\$ 69,448,199	\$ 69,448,199	\$ 73,598,166	\$ 143,046,365

June 30, 2015					
	Investments within the fair-value hierarchy			Investments valued at NAV	Total
	Level 1	Level 2	Total		
Money-market funds	\$ 13,301,846		\$ 13,301,846		\$ 13,301,846
Certificates of deposit		\$ 1,410,383	\$ 1,410,383		1,410,383
Equity securities	21,306,689		21,306,689		21,306,689
Mutual funds	40,940,712		40,940,712		40,940,712
Alternative investments				\$ 75,052,901	75,052,901
	\$ 75,549,247	\$ 1,410,383	\$ 76,959,630	\$ 75,052,901	\$ 152,012,531

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnerships	\$ 61,169,829	\$ 32,500	Quarterly – Annually	Redemptions vary among the different investments from semi-annually and quarterly through termination of the investment vehicle.
Limited liability companies	\$ 12,428,337	None	Quarterly – Annually	Redemptions vary among the different investments from semi-annually and quarterly through termination of the investment vehicle.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

### NOTE C – GRANTS AND ACCOUNTS RECEIVABLE

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

	June 30, 2016	June 30, 2015
One year or less	\$ 8,037,224	\$ 1,140,208
One to five years	5,686,020	191,100
	<b>13,723,244</b>	<b>1,331,308</b>
Reduction of grants receivable due in excess of one year to present value at a rate of 4%	(482,822)	0
	<b>\$ 13,240,422</b>	<b>\$ 1,331,308</b>

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, an amount of approximately \$199,000 has been reserved for doubtful collections.

### NOTE D – PROPERTY AND EQUIPMENT

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

	June 30, 2016	June 30, 2015
Building and improvements	\$ 4,771,936	\$ 4,716,861
Equipment	1,177,262	1,107,541
Furniture and fixtures	259,481	259,481
	<b>6,208,679</b>	<b>6,083,883</b>
Less: accumulated depreciation	(3,432,157)	(3,214,884)
	<b>\$ 2,776,522</b>	<b>\$ 2,868,999</b>

Depreciation expense was \$217,273 and \$206,687 for fiscal-years 2016 and 2015, respectively.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

### 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.

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:

Year Ending June 30,	Amount
2017	\$ 11,659,996
2018	2,895,625
2019	2,074,974
	<u>\$ 16,630,595</u>

During fiscal-years 2016 and 2015, the Council awarded fellowships and stipends of \$17,781,551 and \$18,414,885, 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, 2016 and 2015, the Council was in compliance with all covenants.

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

Year Ending June 30,	Amount
2017	\$ 232,542
2018	243,593
2019	250,079
2020	260,352
2021	266,229
Thereafter	1,832,658
	<u>\$ 3,085,453</u>

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

### 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:

**we have balance as of July 1**

	Balance June 30, 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	887,638	(1,326,142)	1,800,837
International programs	3,838,686	3,151,558	(3,812,996)	3,177,248
Accumulated endowment income reserved for appropriation	6,104,169	(1,076,512)	(1,665,983)	3,361,674
	<b>\$ 29,836,912</b>	<b>\$ 26,643,960</b>	<b>\$ (19,654,022)</b>	<b>\$ 36,826,850</b>

**we have balance as of July 1**

	Balance June 30, 2014	Program Support	Release of Restrictions	Balance June 30, 2015
Fellowship programs	\$ 19,888,880	\$ 9,164,164	\$ (13,532,794)	\$ 15,520,250
Vietnam Program/CEEVN	2,653,845	71,744	(591,123)	2,134,466
Special Program	2,100,153	1,411,372	(1,272,184)	2,239,341
International programs	5,130,505	2,399,464	(3,691,283)	3,838,686
Electronic publishing	53,246		(53,246)	0
Accumulated endowment income reserved for appropriation	7,392,334	284,590	(1,572,755)	6,104,169
	<b>\$ 37,218,963</b>	<b>\$ 13,331,334</b>	<b>\$ (20,713,385)</b>	<b>\$ 29,836,912</b>

### 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.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

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, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 67,935,460			\$ 67,935,460
Donor-restricted endowment funds		\$ 3,361,674	\$ 34,681,959	38,043,633
Total endowment funds	\$ 67,935,460	\$ 3,361,674	\$ 34,681,959	\$ 105,979,093

	June 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 70,976,588			\$ 70,976,588
Donor-restricted endowment funds		\$ 6,104,169	\$ 34,681,959	40,786,128
Total endowment funds	\$ 70,976,588	\$ 6,104,169	\$ 34,681,959	\$ 111,762,716

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.

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

	June 30, 2016	June 30, 2015
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	2,395	2,395
	24,400,795	24,400,795
Program Administration:		
Mellon Foundation	10,000,000	10,000,000
Other:		
Lumiansky Fund	281,164	281,164
	\$ 34,681,959	\$ 34,681,959

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

### 4. Changes in endowment net assets:

	Year Ended June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	(2,899,167)	(1,665,983)		(4,565,150)
Net assets, end of year	\$ 67,935,460	\$ 3,361,674	\$ 34,681,959	\$ 105,979,093

	Year Ended June 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets, beginning of year	\$ 70,943,717	\$ 7,392,334	\$ 34,556,959	\$ 112,893,010
Contributions	2,211,389		125,000	2,336,389
Investment return	481,290	284,590		765,880
Funds appropriated for expenditure	(2,659,808)	(1,572,755)		(4,232,563)
Net assets, end of year	\$ 70,976,588	\$ 6,104,169	\$ 34,681,959	\$ 111,762,716

### 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:

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.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

### NOTE I – EMPLOYEE-BENEFIT PLAN

#### 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 2016 and 2015 were \$214,798 and \$202,753, respectively.

#### 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:

	June 30, 2016	June 30, 2015
Actuarial present value of benefit obligations:		
Expected benefit obligation	\$ (1,979,891)	\$ (1,619,268)
Accumulated postretirement benefit obligation	\$ (1,979,891)	\$ (1,587,317)
Plan assets	0	0
Funded status (excess of obligation over assets)	\$ (1,979,891)	\$ (1,587,317)
Net periodic postretirement medical benefit costs included the following components:		
Service cost	\$ 11,557	\$ 9,962
Interest cost	67,731	63,392
Transition obligation amortization	6,291	25,142
Net loss amortization	56,043	49,739
Net periodic postretirement benefit cost	\$ 141,622	\$ 148,235
Adjustments to net assets, reported in the statement of activities:		
Net actuarial (gains) loss	\$ (427,234)	\$ 61,994
Unrecognized transition obligation	62,334	74,881
Funded status (excess of obligation over assets)	\$ (364,900)	\$ 136,875
Weighted-average assumptions:		
Discount rate	3.50 %	4.25 %
Medical cost-trend rate	6.50 %	5.00 %

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 \$252,039 as of June 30, 2016, and an increase in the aggregate service and interest cost components of net periodic postretirement benefit cost of \$9,515 as of June 30, 2016

Employer contributions and benefits paid were \$113,948 and \$67,361 for fiscal-years 2016 and 2015, respectively. The estimated amount of the Council’s contributions for fiscal-year 2017 is \$101,890.

## NOTES TO FINANCIAL STATEMENTS CONTINUED

American Council of Learned Societies, June 30, 2016 and 2015

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

Year Ended June 30,	Expected Benefit Distributions
2017	\$ 101,890
2018	89,648
2019	109,955
2020	111,569
2021	82,145
2022–2026	509,082

### 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. **[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.

2. **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-year 2016, approximately 79% of the Council's total support was provided by one donor. During fiscal-year 2015, approximately 77% of the Council's total support was provided by two donors.



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## **INDEPENDENT AUDITORS' REPORT**

October 23, 2015

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, 2015 and 2014, 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 audit 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' judgment, 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