

The Academy of Natural Sciences of Philadelphia

**(A Pennsylvania not-for-profit corporation doing business as
The Academy of Natural Sciences of Drexel University)**

**Financial Statements
For the Years Ended June 30, 2019 and 2018**

The Academy of Natural Sciences of Philadelphia
Index
June 30, 2019 and 2018

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Cash Flows.....	5
Notes to Financial Statements	6-30



Report of Independent Auditors

To the Board of Trustees of Drexel University
The Academy of Natural Sciences of Philadelphia

We have audited the accompanying statements of financial position of The Academy of Natural Sciences of Philadelphia (a Pennsylvania not-for-profit corporation dba The Academy of Natural Sciences of Drexel University), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Academy of Natural Sciences of Philadelphia as of June 30, 2019 and 2018, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 24, 2019

The Academy of Natural Sciences of Philadelphia
Statements of Financial Position
June 30, 2019 and 2018 (in thousands)

	2019	2018
Assets:		
Cash and cash equivalents		
Operating	\$ 2,258	\$ 8,147
Grants and other receivables	1,238	5,485
Contributions receivables, net	1,631	2,314
Beneficial interest in trusts, at fair value	9,574	9,204
Investments, at fair value	61,884	62,135
Land, buildings and equipment, net	17,934	18,968
Other assets/Due from Drexel University	302	260
Total assets	\$ 94,821	\$ 106,513
Liabilities:		
Accounts payable	\$ 884	\$ 629
Accrued liabilities	710	4,241
Deferred revenue	1,784	5,476
Accrued retirement obligations	9,717	8,980
Other liabilities/Due to Drexel University	-	1,726
Total liabilities	13,095	21,052
Net Assets:		
Without donor restrictions	2,573	5,726
With donor restrictions	79,153	79,735
Total net assets	81,726	85,461
Total liabilities and net assets	\$ 94,821	\$ 106,513

The accompanying notes are an integral part of these financial statements.

The Academy of Natural Sciences of Philadelphia
Statement of Activities
For the Year Ended June 30, 2019 (in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating			
Revenues and releases:			
Grants and contracts	\$ 1,448	\$ 1,594	\$ 3,042
Contributions	1,067	958	2,025
Allocation of endowment spending from financial capital	534	2,536	3,070
Investment Income, net	328	9	337
Auxiliary Enterprises	3,145	-	3,145
Other income	4,696	5	4,701
Total revenues	11,218	5,102	16,320
Net assets released from restriction	5,738	(5,738)	-
Total revenues and releases	16,956	(636)	16,320
Expenses:			
Salaries and wages	7,471	-	7,471
Employee benefits	2,057	-	2,057
Depreciation and amortization	1,131	-	1,131
Other operating expenses	7,628	-	7,628
Total expenses	18,287	-	18,287
Decrease in net assets from operating activities	(1,331)	(636)	(1,967)
Non-operating			
Contributions - Endowment and other gifts	-	7	7
Realized/unrealized net gain on investments, net of endowment payout and expenses	(7)	47	40
Expenses related to frozen defined benefit pension plan	(1,789)	-	(1,789)
Other decreases	(26)	-	(26)
Increase / (decrease) in net assets from non-operating activities	(1,822)	54	(1,768)
Total decrease in net assets	(3,153)	(582)	(3,735)
Net assets, beginning of year	5,726	79,735	85,461
Net assets, end of year	\$ 2,573	\$ 79,153	\$ 81,726

The accompanying notes are an integral part of these financial statements.

The Academy of Natural Sciences of Philadelphia
Statement of Activities
For the Year Ended June 30, 2018 (in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating			
Revenues and releases:			
Grants and contracts	\$ 8,232	\$ -	\$ 8,232
Contributions	1,201	2,291	3,492
Allocation of endowment spending from financial capital	530	2,459	2,989
Investment Income, net	357	-	357
Auxiliary Enterprises	2,577	-	2,577
Other income	4,141	-	4,141
Total revenues	17,038	4,750	21,788
Net assets released from restriction	3,543	(3,543)	-
Total revenues and releases	20,581	1,207	21,788
Expenses:			
Salaries and wages	7,339	-	7,339
Employee benefits	1,895	-	1,895
Depreciation and amortization	1,143	-	1,143
Other operating expenses	11,728	-	11,728
Total expenses	22,105	-	22,105
Increase / (decrease) in net assets from operating activities	(1,524)	1,207	(317)
Non-operating			
Contributions - Endowment and other gifts	-	240	240
Realized/unrealized net gain on investments, net of endowment payout and expenses	854	650	1,504
Expenses related to frozen defined benefit pension plan	(111)	-	(111)
Other decreases	(15)	-	(15)
Increase in net assets from non-operating activities	728	890	1,618
Total increase / (decrease) in net assets	(796)	2,097	1,301
Net assets, beginning of year	6,522	77,638	84,160
Net assets, end of year	\$ 5,726	\$ 79,735	\$ 85,461

The accompanying notes are an integral part of these financial statements.

The Academy of Natural Sciences of Philadelphia
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Operating activities:		
Increase/(decrease) in net assets	\$ (3,735)	\$ 1,301
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,131	1,143
Loss on disposal of equipment	3	7
Change in market value in beneficial interests in trusts	(370)	67
Contributions restricted for long-term investment	(27)	(149)
Non-cash contributions received	(314)	(588)
Proceeds from sales of donated securities	306	586
Actuarial change on annuity liabilities	(24)	(1)
Realized/unrealized loss on investments	(2,917)	(4,822)
Changes in operating assets and liabilities		
Grants and other receivable	4,246	(3,077)
Contributions receivable	633	874
Other assets	(102)	(55)
Accrued liabilities	(3,026)	3,142
Accrued retirement obligations	737	(353)
Deferred revenue	(3,692)	(1,907)
Other liabilities	(1,666)	12
Net cash (used in) / provided by operating activities	(8,817)	(3,820)
Investing activities:		
Purchase of investments	(9,131)	(23,763)
Proceeds from sales and maturities of investments	12,306	26,712
Purchase of buildings and equipment	(324)	(793)
Net cash (used in) / provided by investing activities	2,851	2,156
Financing activities:		
Contributions restricted for endowments	27	149
Proceeds from sales of donated securities	50	150
Payments on annuity obligations	-	(4)
Net cash (used in) / provided by financing activities	77	295
Net decrease in cash and cash equivalents	(5,889)	(1,369)
Cash and cash equivalents, beginning of year	8,147	9,516
Cash and cash equivalents, end of year	\$ 2,258	\$ 8,147
Supplemental information		
Donated securities	\$ 364	\$ 738
Cash paid for interest	-	-

The accompanying notes are an integral part of these financial statements.

The Academy of Natural Sciences of Philadelphia

Notes to Financial Statements

June 30, 2019 and 2018

1. Nature of Organization and Summary of Significant Accounting Policies

The Academy of Natural Sciences of Philadelphia (the “Academy”) is a not-for-profit corporation that has been granted tax-exempt status under Section 501 (c)(3) of the Internal Revenue Code. The Academy was founded in 1812. Pursuant to an affiliation agreement dated September 30, 2011 the Academy became a non-profit subsidiary of Drexel University (“Drexel”). The Academy is dedicated to encouraging and cultivating the sciences and advancing learning. The Academy operates a public museum in Philadelphia and conducts systematic research and research in aquatic ecosystems, including integrating such research with education regarding biodiversity and environmental science in collaboration with Drexel and its students.

Basis of Accounting and Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and with the provision of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 958, *Not-for-Profit Entities*, which requires the Academy to classify its net assets into two categories according to donor-imposed restrictions; net assets without donor imposed restrictions and net assets with donor imposed restrictions.

Net Assets without Donor Restrictions – Net assets derived from Academy that are not subject to explicit donor-imposed restrictions. Net assets without donor restrictions include board designated funds functioning as endowment funds.

Net Assets with Donor Restrictions - Net assets which are subject to explicit donor-imposed restrictions on the expenditure of contributions or income and gains on contributed assets, net assets from endowments not yet appropriated for spending by the Academy. In some cases, donor restrictions can be fulfilled by actions of the Academy in accordance with those stipulations or by the passage of time. In other cases, some restrictions, such as endowed funds, are permanent, and typically, the donors of these assets permit the Academy to use all or part of the income earned on these assets for operations. Restrictions include support of specific departments of the Academy, research, scholarships and fellowships, building construction and other purposes. When time and purpose restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Measure of Operations

The Academy’s measure of operations as presented in the statement of activities includes revenue from grants and contracts, contributions for operating programs, the allocation of endowment spending for operations, museum admissions, membership dues, and other revenues. Operating expenses are reported on the statement of activities by natural classification.

The Academy’s non-operating activity within the statement of activities includes contributions to the Academy’s endowment for building construction and renovation, investment returns and other activities related to endowment, and long-term benefit plan obligation funding changes that are not part of the Academy’s operating activities.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

Liquidity and Availability

The Academy's financial assets available within one year of the balance sheet date for general expenditure less non-financial assets and financial assets not available within one year as of June 30, 2019 are as follows:

<i>(in thousands)</i>	2019	2018
Total assets at year-end	\$ 94,821	\$ 106,513
Less non-financial assets:		
Contributions receivable due in more than one year	790	1,359
Beneficial Interests in trusts	9,574	9,204
Investments	61,884	62,135
Land, buildings and equipment, net	17,934	18,968
Other assets	241	260
Financial assets available at year-end for current use	\$ 4,398	\$ 14,587

The Academy has \$4,397,000 of financial assets that are available within one year of the balance sheet date to meet cash needs for general expenditure. In addition to these available financial assets, a significant portion of the Academy's annual expenditures will be funded by current year operating revenues including museum income, membership dues, grant and contract income, and support from Drexel. The Academy structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

The Academy's endowment funds consist of donor-restricted and board-designated endowment funds. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 6, for fiscal year 2019 and 2018 the Board of Trustees approved a current distribution to 5.50% of the fair market value of the pooled endowment assets for the prior seven years. Under the approved spending rules, the Academy received an allocation of \$3.0 million and \$2.9 million. The endowment portfolio structures cash to be available for the endowment spend and to fulfill capital calls for alternative investments.

To help manage unanticipated liquidity needs, the Academy has a line of credit with Drexel in the amount of \$1,500,000, which it could draw upon. Additionally, the Academy has a board-designated endowment of \$1,496,000 as of June 30, 2019. Although the Academy does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, the board-designated endowment funds contain investments with lock-up provisions that reduce the total investments that could be made available.

The Academy of Natural Sciences of Philadelphia

Notes to Financial Statements

June 30, 2019 and 2018

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2019 and 2018, the Academy had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes the credit risks related to these deposits to be minimal. Cash and cash equivalents are carried at cost, which approximates fair value. All money market funds that are held in endowment are considered investments by the Academy.

Contributions Receivable

Contributions and unconditional pledges are recorded at the present value of their expected future cash flows. Unconditional pledges that are expected to be collected within one year are recorded at their estimated net realizable value. Conditional pledges are not included as revenue until the conditions, which represent barriers that must be overcome before the Academy is entitled to the assets transferred, are fulfilled. Contributions are reported as an increase in the appropriate net asset category.

Beneficial Interests in Trusts

The Academy is the beneficiary of the income of certain trusts but has neither possession nor control of the investments. Beneficial interests in trusts are classified as Level 3. (See Note 5 for investment level definitions.) The trusts are recorded at fair value based on the interest in the trust as determined by the trustee based on the underlying securities held by the trusts and are primarily composed of equity and fixed income securities that have readily determinable values. The primary unobservable inputs used in the fair value measurement of the trusts are the present value of expected future cash flows. Significant fluctuation in the securities held in the trusts could result in a material change in fair value.

Fair Value of Financial Instruments

The Academy applies fair value measurements to contributions receivable, beneficial interests in trusts, endowment investments and annuities.

Functional and Natural Classification of Expenses

The costs of providing the various programs and other activities of the Academy have been summarized on a functional basis in Note 16. Accordingly, direct costs incurred have been allocated among the programs and supporting services benefited based on management estimates.

Fundraising

Fundraising costs were \$678,355 and \$714,818 in 2019 and 2018, respectively.

Contributions

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted.

The Academy of Natural Sciences of Philadelphia

Notes to Financial Statements

June 30, 2019 and 2018

Contributed property and equipment are recorded at fair value as of the date of the donation. If the donor restricts how long the asset must be used or how the asset is used, the contributions are recorded as restricted. In the absence of stipulations, these contributions are recorded as unrestricted. These amounts are released from restriction as expenses are incurred against the program or based on the spending rule, as applicable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Academy is a not-for-profit corporation that has been granted tax exempt status under Section 501 (c)(3) of the Internal Revenue Code, and, accordingly files Federal Tax Form 990 (*Return of Organization Exempt from Income Tax*), annually.

The Academy has from time to time reported unrelated business income from investments held in the endowment fund, when unrelated business income has been reported by the investment manager on Schedule K-1. The statute of limitations on the Academy's U.S. federal informational returns remains open for three years following the year they are filed.

The FASB issued ASC No. 740-10, *Accounting for Uncertainty in Income Taxes*, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. The Academy does not believe there are any uncertain tax positions that would require recognition in the financial statements as of June 30, 2019 and 2018.

Recently Adopted Accounting Pronouncements

Beginning in May 2014, the FASB issued several Accounting Standard Updates which established a new framework for *Revenue from Contracts with Customers (Topic 606)*. The core principle is that revenue is recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects consideration to which entity expects to be compensated in exchange for those goods or services. The guidance is effective for annual fiscal periods beginning after December 15, 2017. The Academy has adopted the standard by applying the retrospective transition method, and the impact is reflected in the Statement of Activities and Note 14 for both periods presented.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU No. 2016-14 is meant to reduce the complexity of, and add clarity to net asset reporting, add additional disclosure regarding nature of self-imposed limits on net assets without donor restrictions and net assets with donor restrictions, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. The Academy has adopted this new guidance and collapsed the

The Academy of Natural Sciences of Philadelphia

Notes to Financial Statements

June 30, 2019 and 2018

three-category (unrestricted, temporarily restricted and permanently restricted) classification of net assets in two categories: with donor restrictions and without donor restrictions. In addition, the Academy has included expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in the financial statements, and (3) disclosing a single net measure of investment return. As a result of adopting this standard, the underwater endowment deficiencies of \$605,602 were adjusted in the beginning net asset fund balances for the period ending June 30, 2018. Also, certain prior year amounts were reclassified to conform to the presentation requirements (Note 6, 12, and 15).

In August 2016, the FASB issued ASU No. 2016-15, *Statements of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 aims to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if the retrospective application would be impracticable. The Academy has adopted ASU No. 2016-15 by applying the retrospective transition method which is reflected in the Statements of Cash Flow for both periods presented. The adoption of this guidance did not have a material impact on the financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)*: ASU No. 2017-07 requires the service cost component of net periodic pension cost and net periodic postretirement benefit cost to be presented as part of fringe benefit expense in the Statement of Activities. The other components of net periodic benefit cost will be reported as non-operating activity in the Statement of Activities. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented. The Academy has adopted ASU No. 2017-07 and the impacts of these changes are reflected in the Statement of Activities for both periods presented.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is meant to provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. ASU No. 2018-08 is effective for annual periods beginning after June 15, 2018, with early adoption permitted. Entities can apply the guidance on a modified prospective basis or retrospective basis. The Academy has adopted ASU No. 2018-08 by applying the modified prospective transition method in its Financial Statements and the relevant footnotes. The adoption of this guidance did not have a material impact on the financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is meant to increase transparency and comparability among organizations by recognizing lease assets

The Academy of Natural Sciences of Philadelphia

Notes to Financial Statements

June 30, 2019 and 2018

and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for annual fiscal periods beginning after December 15, 2018. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which aims to improve the usefulness of the disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU No. 2018-13 is effective for annual periods beginning after December 15, 2019, with early adoption permitted. Changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively to all periods presented. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) – Disclosure Framework – Changes to Disclosure Requirements for Defined Benefit Plans*, which aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU No. 2018-14 is effective for public business entities for annual periods beginning after December 15, 2021, with early adoption permitted in a retrospective basis to all periods presented. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU No. 2018-15 aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. ASU No. 2018-15 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. Entities can apply the guidance prospectively or retrospectively. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808) – Clarifying the Interaction between Topic 808 and Topic 606*, which seeks to clarify that certain transactions between collaborative arrangement participants should be accounted for as revenue and apply all relevant guidance under Topic 606 to these revenues. In addition, ASU No. 2018-18 provides more comparability in the presentation of revenue for certain transactions between collaborative arrangement participants. ASU No. 2018-18 is effective for annual periods beginning after December 15, 2020. The Academy is currently evaluating the standard to determine the impact it will have on the financial statements.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*, which seeks to align the definition of collections as defined in the American Alliance of Museums' (AAM) Code of Ethics for Museums with its definition of collections in the Master Glossary. The FASB is also making a technical correction in *Topic 360 – Property, Plant and Equipment*, to clarify the accounting and disclosure guidance for collections in *Subtopic 958-360, Not-for Profit Entities – Property, Plant and Equipment*. ASU No. 2019-03 is effective for fiscal years beginning after December 15, 2019. The Academy is currently evaluating the standard to determine the impact it will have on the financial statements.

2. Grants Receivable

Grants receivable represents invoices billed to grantor for services provided under the terms of the grant agreements which have not yet been collected as of June 30, 2019 and 2018. Grant receivables are written off against the allowance for doubtful accounts when they are determined to be uncollectible based upon management's assessment. The allowance for doubtful accounts is estimated based on the Academy's historical losses and periodic review of the accounts.

<i>(in thousands)</i>	2019	2018
Grants and other receivables	\$ 1,286	\$ 5,532
Allowance for doubtful accounts	(48)	(47)
Grants and other receivables	\$ 1,238	\$ 5,485

As of June 30, 2019, the Academy has outstanding unrecorded conditional grants receivable of \$3,832,000. Revenue for these conditional grants will be recognized in future periods when the conditions are met.

3. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable with a payment due more than a year from the pledge date are recorded net of a discount using rates as of June 30, 2019 and June 30, 2018 that range between 1.75% to 2.00% and 2.52 % to 2.85%, respectively. The Academy considers these discount rates to be a Level 3 input in the context of ASC No. 820-10 (Note 5)

When the conditional barriers are overcome and the donor's right of return has expired, the revenue is recorded and is generally restricted for operations, endowment and capital projects as stipulated by the donors. The Academy has conditional contributions receivable of \$50,000 for each of the years ended June 30, 2019 and 2018.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

Net contributions receivable at June 30 were as follows:

<i>(in thousands)</i>	2019	2018
Amounts due in		
Less than one year	\$ 841	\$ 955
One to five years	839	1,487
Greater than five years	-	-
Gross contributions receivable	1,680	2,442
Less:		
Allowance for uncollectibles	(49)	(128)
Total contributions receivable, net	\$ 1,631	\$ 2,314

4. Investments and Investment Return

At June 30, 2019 and 2018, the fair value of investments included the following:

<i>(in thousands)</i>	Fair value	
	2019	2018
Money market funds	\$ 805	\$ 3,820
U.S. equity	14,486	15,657
Global equity	13,344	12,222
Fixed income securities and bond funds	10,287	10,097
Real estate and real assets funds	9,150	9,526
Hedge funds	3,464	2,324
Private equity	10,348	8,489
Total investments	61,884	62,135

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

The following summarizes the Academy's total investment return and its classification in the financial statements for the year ended June 30, 2019 and 2018:

<i>(in thousands)</i>	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Investment income, net of expenses	\$ 11	\$ 707	\$ 718
Realized/unrealized gains	516	1,876	2,392
Endowment payout under spending formula	(534)	(2,536)	(3,070)
Realized/unrealized gain on investments, net of endowment payout and expenses	(7)	47	40
Operating investment income, net	328	9	337
Total return on investments	\$ 321	\$ 56	\$ 377

<i>(in thousands)</i>	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Investment income, net of expenses	\$ 7	\$ 442	\$ 449
Realized/unrealized gains	1,377	2,667	4,044
Endowment payout under spending formula	(530)	(2,459)	(2,989)
Realized/unrealized gain on investments, net of endowment payout and expenses	854	650	1,504
Operating investment income, net	357	-	357
Total return on investments	\$ 1,211	\$ 650	\$ 1,861

5. Fair Value of Financial Instruments

The three-level hierarchy for fair value measurements is based on observable and unobservable inputs to the valuation of an asset or liability at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants ("exit price") at the measurement date.

The Academy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. When available, fair value is based on actively quoted market prices. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

of fair value, judgment is required to develop the estimates of fair value. In those cases, prices are estimated based on available historical financial data or comparable investment vehicles that reflect widely accepted market valuation practices.

In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In those cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset. Fair value measurements are categorized as Level 3 when a significant number of price or other inputs, considered to be unobservable, are used in their valuations. The fair value hierarchy and inputs to valuation techniques are as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.

- Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived from observable market data by correlation or other means.

- Level 3 Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 primarily consist of trusts and annuities.

As a practical expedient, the Academy estimates the fair value of an investment in an investment company fund at the measurement date using the reported net asset value (NAV). The fair values of alternative investments represent the Academy's ownership interest in the net asset value (NAV) of the respective fund. Investments held by the funds consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by these funds that do not have readily determinable fair values are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issue, and subsequent developments concerning the companies to which the securities relate.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

As of June 30, 2019, and 2018, assets and liabilities at fair value were as follows:

<i>(in thousands)</i>	2019			Investments at NAV	Total
	Level 1	Level 2	Level 3		
Assets					
Beneficial interest in trusts	\$ -	\$ -	\$ 9,574	\$ -	\$ 9,574
Investments					
Money market funds	805	-	-	-	805
U.S. Equity	13,165	-	-	1,321	14,486
Global Equity	9,208	-	-	4,136	13,344
Fixed Income securities and bond funds	8,870	-	-	1,417	10,287
Real estate and real assets funds	-	-	-	9,150	9,150
Hedge funds	-	-	-	3,464	3,464
Private Equity	-	-	-	10,348	10,348
Total investments	32,048	-	-	29,836	61,884
Total assets at fair value	\$ 32,048	\$ -	\$ 9,574	\$ 29,836	\$ 71,458
Liabilities					
Split-interest agreements	\$ -	\$ -	\$ 230	\$ -	\$ 230
Annuities	-	-	20	-	20
Total liabilities at fair value	\$ -	\$ -	\$ 250	\$ -	\$ 250
2018					
<i>(in thousands)</i>	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets					
Beneficial interest in trusts	\$ -	\$ -	\$ 9,204	\$ -	\$ 9,204
Investments					
Money market funds	3,820	-	-	-	3,820
U.S. Equity	15,657	-	-	-	15,657
Global Equity	10,518	-	-	1,704	12,222
Fixed Income securities and bond funds	6,005	-	-	4,092	10,097
Real estate and real assets funds	-	-	-	9,526	9,526
Hedge funds	-	-	-	2,324	2,324
Private Equity	-	-	-	8,489	8,489
Total investments	36,000	-	-	26,135	62,135
Total assets at fair value	\$ 36,000	\$ -	\$ 9,204	\$ 26,135	\$ 71,339
Liabilities					
Split-interest agreements	\$ -	\$ -	\$ 239	\$ -	\$ 239
Annuities	-	-	35	-	35
Total liabilities at fair value	\$ -	\$ -	\$ 274	\$ -	\$ 274

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

Details related to the fair value of investments that have been estimated using a net asset value practical equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) were as follows:

<i>(in thousands)</i>	Fair Value	Unfunded Commitments	2019 Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
Hedge Funds:				
Multi-Strategy Hedge Funds (a)	\$ 15	\$ -		
Fixed Income and Related Hedge Funds (b)	2,427	-	Quarterly	45 days
Real Estate Hedge Funds (c)	1,022	-	Quarterly	60 days
Subtotal Hedge Funds	3,464	-		
Private Equity:				
Private Capital Funds-Secondaries (d)	791	367		
Private Capital Funds-Buy-out (e)	4,770	4,888		
Private Capital Funds-Debt (f)	862	1,612		
Private Capital-Real Assets (g)	3,104	5,618		
Private Capital-Real Estate (h)	821	2,587		
Subtotal Private Equity	10,348	15,072	Close-ended funds not available for redemption	
US Equity (i)	1,321	-		
Global Equity (i)	4,136	-		
Fixed Income Securities and Bond Funds (i)	1,417	-		
Real Estate and Real Assets Funds (i)	9,150	-		
	\$ 29,836	\$ 15,072		

- a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2019, the composite portfolio includes 100% in private equity investments which can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets in the portfolio. If these investments were held, it is estimated that the underlying assets would be liquidated over the next 1 to 3 years. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.
- b. This category includes investment in hedge funds that invest in U.S. mortgage backed securities. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.
- c. This category includes investment in hedge funds that invest in diversified U.S. real estate properties. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

- d. This category includes investments in private equity funds that invest in the private equity secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 100% of the underlying assets will be liquidated over 1 to 4 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.
- e. This category includes investments in private equity funds that invest in buy-outs. A buy-out is a purchase of a company or a controlling interest of a corporation's shares or product line of some business. These investments are primarily diversified across asset classes, and are primarily in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 0% of the underlying assets of the fund will be liquidated over 1 to 4 years, 52% over 5 to 7 years, and 48% over 8 to 10 years. The fair value has been estimated using the net asset value per share of the private capital fund.
- f. This category includes investments in private equity funds that provide debt financing to middle market firms. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 56% of the underlying assets of the fund will be liquidated over 1 to 4 years, 0% in 5 to 7 years, and 44% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.
- g. This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 40% of the underlying assets of the fund will be liquidated over approximately 1 to 4 years, 15% over 5 to 7 years, and 45% over 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.
- h. This category includes investments in private equity funds that invest in U.S. commercial real estate, and a broad range of mortgage-related investments. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 44% of the underlying assets of the fund will be liquidated over approximately 1 to 4 years, 0% over 5 to 7 years, and 56% over 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.
- i. This category includes investments in U.S. equity, global equity, fixed income securities and bond funds, and real estate and real assets funds. Investments in this category reflect the fair value of the specific assets or the underlying ventures' net assets. The valuations of these investments are the net asset values prepared by fund managers. Majority of these investments are commingled funds.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

The change in the Academy's Level 3 assets and liabilities as of June 30 included the following:

<i>(in thousands)</i>	2019	2018
Assets at beginning of year	\$ 9,204	\$ 9,271
Net realized/unrealized gain	673	193
Purchases of investments	-	-
Sales of investments	(303)	(260)
Assets at end of year	\$ 9,574	\$ 9,204

<i>(in thousands)</i>	2019	2018
Liabilities at beginning of year	\$ 274	\$ 275
Changes in annuities and split-interest agreements	(24)	(1)
Liabilities at end of year	\$ 250	\$ 274

6. Endowment Funds

The Academy has an investment policy for endowment assets designed to maximize the total return within an acceptable level of risk consistent with long-term preservation of the real value of the funds. The goal is to manage the portfolio for risk as well as total return, consistent with fiduciary standards of the prudent investor rule.

To satisfy its rate-of-return objectives, the Academy 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). Endowment assets are invested in several asset classes and subclasses thereof to moderate the volatility of the returns for the entire portfolio.

For the years ended June 30, 2019 and 2018, the Academy had an endowment spending rule that limited the spending of endowment resources to 5.50%, of the average fair value of the pooled endowment portfolio for the prior seven fiscal years. This rule was applied except in cases where the spending rate had been stipulated by the donor (typically 5.0%).

The Academy's endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments (quasi endowments).

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The earnings on these funds are utilized by the Academy in a manner consistent with specific donor restrictions on the original contributions.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

Interpretation of Relevant Law

The Board of Trustees has interpreted Pennsylvania Act 141 (“PA Act 141”) as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. Because of this interpretation, the Academy internally classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) earnings of the endowment made in accordance with the direction of the applicable donor designation. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by PA Act 141. Both permanently restricted and temporarily restricted net assets are considered net assets with donor restrictions as per the applicable accounting standards. The Academy’s policy is to not allocate spend from underwater endowment funds.

Endowment Funds with Deficiencies

From time to time, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund. The aggregate amount of deficiencies of these funds is reported in net assets with donor restrictions in the statement of activities. Subsequent investment gains will be used to restore the balance to the fair market value of the original amount of the gift. Aggregate deficiencies for the years ended June 30, 2019 and 2018 were approximately \$648,648 and \$605,602 respectively. The original gift amount and the fair value of the underwater endowment funds in the aggregate were \$9,885,765 and \$9,237,117 as of June 30, 2019 and \$8,950,675 and \$8,345,073 as of June 30, 2018, respectively.

Endowment composition by type of fund as of June 30, 2019 and 2018 was as follows:

<i>(in thousands)</i>	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 60,384	\$ 60,384
Board-designated endowment funds	1,496	-	1,496
Total assets	\$ 1,496	\$ 60,384	\$ 61,880

<i>(in thousands)</i>	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 60,697	\$ 60,697
Board-designated endowment funds	1,501	-	1,501
Total assets	\$ 1,501	\$ 60,697	\$ 62,198

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

Changes in the Academy's endowment assets (excluding annuities and trusts) for the years ended June 30, 2019 and 2018 were as follows:

<i>(in thousands)</i>	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment at beginning of year	\$ 1,501	\$ 60,697	\$ 62,198
Endowment return:			
Investment income, net of fees	11	707	718
Net realized/unrealized gain	31	1,969	2,000
Total endowment return	42	2,676	2,718
Contributions	-	7	7
Use of endowment assets:			
Endowment payout used in operations	(47)	(3,023)	(3,070)
Other	-	27	27
Total uses of endowment assets	(47)	(2,996)	(3,043)
Endowment at end of year	\$ 1,496	\$ 60,384	\$ 61,880

<i>(in thousands)</i>	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment at beginning of year	\$ 1,385	\$ 58,357	\$ 59,742
Endowment return:			
Investment income, net of fees	7	442	449
Net realized/unrealized gain	63	4,048	4,111
Total endowment return	70	4,490	4,560
Contributions	-	240	240
Use of endowment assets:			
Endowment payout used in operations	(46)	(2,944)	(2,990)
Other	92	554	646
Total uses of endowment assets	46	(2,390)	(2,344)
Endowment at end of year	\$ 1,501	\$ 60,697	\$ 62,198

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

7. Land, Buildings and Equipment

Land, buildings, and equipment are stated at cost or, if acquired by gift, at the appraised value on the date of acquisition. Amortization and depreciation are computed on a straight-line basis over the lesser of the estimated useful lives of the assets ranging from 3 to 30 years for equipment, 3 to 5 years for software, and 5 to 60 years for building and improvements.

The Academy determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was \$8,187 and \$12,799 at June 30, 2019 and \$8,187 and \$12,189 at June 30, 2018, respectively, and is included in building and improvements and accrued expenses on the Statements of Financial Position. The depreciation and accretion expense amounted to \$384 and \$610 at June 30, 2019 and \$384 and \$553 at June 30, 2018, respectively.

Land, buildings and equipment consisted of the following as of June 30, 2019 and 2018:

<i>(in thousands)</i>	2019	2018
Land and improvements	\$ 34	\$ 34
Buildings and improvements	21,731	21,568
Equipment, software and library books	5,431	5,417
Construction in progress	717	862
	<u>27,913</u>	<u>27,881</u>
Less: Accumulated depreciation	(9,979)	(8,913)
Total land, buildings and equipment	\$ 17,934	\$ 18,968

Depreciation and amortization expenses for the years ended June 30, 2019 and 2018 were \$1,130,666 and \$1,142,831, respectively.

8. Collections

Collections acquired through purchases and contributions are not recognized as assets on the Statement of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or donor restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements.

The Academy's collections are made up of library holdings, scientific specimens, minerals, gems, exhibits, and art objects that are held for educational research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

9. Retirement Plans

Defined Contribution Plans

The Academy participates in the Drexel University Defined Contribution Retirement Plan (“DU DC”) effective January 1, 2016. Drexel University is the DU DC administrator. The trustees of the DU DC are Teachers Insurance and Annuity Association – College Retirement Equities Fund, as agent for JP Morgan Chase Bank, N.A. (“TIAA-CREF”), Vanguard Fiduciary Trust Company (“Vanguard”) and Fidelity Management Trust Company (“Fidelity”).

Defined Benefit Plan

The Academy offered participation in a defined benefit pension plan (“DB Plan”) which covered all full-time employees with a minimum of one year of service. The Board of Trustees approved freezing the DB Plan effective December 31, 2009, replacing it with the DC Plan for all eligible Academy employees effective January 1, 2010. The assumptions for the pension liabilities, the accumulated benefit obligation, change in projected benefit obligation, and change in plan assets for the defined benefit plan are noted as follows:

<i>(in thousands)</i>	2019	2018
Weighted average assumptions as of June 30		
Discount rate	3.60 %	4.30 %
Expected return on plan assets	6.25 %	6.25 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	\$ 21,096	\$ 19,650
Change projected in benefit obligation		
Net benefit obligation at June 30	\$ 19,650	\$ 20,037
Service costs	230	230
Interest costs	822	762
Actuarial (gain)/loss	1,589	(321)
Gross benefits paid	(1,195)	(1,058)
Net benefit obligation at June 30	\$ 21,096	\$ 19,650

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

<i>(in thousands)</i>	2019	2018
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 10,670	\$ 10,639
Actual return on plan assets	621	330
Employer contributions	1,283	759
Gross benefits paid	(1,195)	(1,058)
Fair value of plan assets at June 30	\$ 11,379	\$ 10,670
Fair value of plan assets	\$ 11,379	\$ 10,670
Benefit obligation	21,096	19,650
Net amount recognized at June 30*	\$ (9,717)	\$ (8,980)

* These amounts are recognized in the Statement of Financial Position in the post-retirement and pension benefits classification.

The components of net periodic benefit cost are noted below:

<i>(in thousands)</i>	2019	2018
Weighted average assumptions used to determine net periodic benefit costs		
Discount rate	4.30 %	4.30 %
Expected return on plan assets	6.25 %	6.25 %
Components of net periodic benefit costs		
Service costs	\$ 230	\$ 230
Interest costs	822	762
Expected return on assets	(666)	(661)
Amortization of actuarial loss	1,633	10
Net periodic benefit cost	\$ 2,019	\$ 341

As of June 30, 2019, and 2018 the pension plan had a projected benefit obligation and an accumulated benefit obligation in excess of plan assets. Both the projected and accumulated benefit obligation were \$21,096,071 and \$19,649,999 at June 30, 2019 and 2018, respectively.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

Information about the expected cash flows for the pension plan is as follows:

Expected benefit payments

(in thousands)

June 30,	
2020	1,125
2021	1,230
2022	1,256
2023	1,275
2024	1,291
2025-2029	6,568

Plan Assets

The Academy's pension plan weighted-average asset allocations at June 30, 2019 and 2018 by asset category are as follows:

	2019	2018
Asset category		
Equity securities	46.2%	49.2 %
Fixed income securities	28.6%	31.4 %
Hedge fund and alternative investments	22.0%	12.3 %
Cash	3.2%	7.1 %
	100.0%	100.0 %

The Academy's investment policy and strategy is to shift investments to the target allocation to control the volatility of investment returns for the portfolio. As the investment horizon is expected to be long-term, the portfolio needs to provide long-term capital growth while also being protected from incurring major losses due to the poor performance of one sector of the market and must be invested to reduce the overall investment risk and volatility of investment returns.

The target composition of the Academy's plan assets is characterized as a 34%, 37%, 27%, 2% allocation between equity, fixed income investments, alternative investments and cash. The strategy currently utilizes indexed equity funds, fixed income funds, and a number of alternative investment vehicles. The alternative investments are allocated among various classes, including but not limited to equities, hedge funds, fixed income, natural resources, and real estate. The strategy allows the Academy to invest in a diversified manner with a mix of assets that are set not to be highly correlated. The expected rate of return on assets was based on the current interest rate environment and historical market premiums of equity and other asset classes relative to fixed income rates.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

The following tables present the plan assets at fair value as of June 30, 2019, and 2018 according to the valuation hierarchy:

<i>(in thousands)</i>			2019			
	Level 1	Level 2	Level 3	Investments	Total	
Assets at fair value						
Cash equivalents	\$ 364	\$ -	\$ -	\$ -	\$ -	\$ 364
Mutual funds	8,847	-	-	-	-	8,847
Alternative investments	-	-	-	2,168	2,168	2,168
	<u>\$ 9,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,168</u>	<u>\$ 2,168</u>	<u>\$ 11,379</u>

<i>(in thousands)</i>			2018			
	Level 1	Level 2	Level 3	Investments	Total	
Assets at fair value						
Cash equivalents	\$ 763	\$ -	\$ -	\$ -	\$ -	\$ 763
Mutual funds	9,093	-	-	-	-	9,093
Alternative investments	-	-	-	814	814	814
	<u>\$ 9,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 814</u>	<u>\$ 814</u>	<u>\$ 10,670</u>

10. Due from / to Drexel University

The amount due from and due to Drexel University is \$59,813 and \$0, and \$0 and \$1,725,718 at June 30, 2019 and 2018, respectively. The intercompany accounts are repaid on a periodic basis excluding draws on the line of credit (Note 11).

11. Line of Credit

The Academy has an unsecured line of credit with Drexel. This agreement allows the Academy to borrow up to \$1,500,000 to meet short term cash flow needs. Under the terms of the line of credit agreement, the full principal amount is available at an annual interest of 1.00%. The initial term of the line of credit shall be from June 30, 2012 to June 30, 2014 and shall automatically renew for an additional 12 months on each June 30th thereafter, unless notice of non-renewal is provided in writing by either Drexel or the Academy, 30 days in advance of the termination date. Interest on each advance shall be payable in arrears on the first business day of each month. The outstanding principal balance of any advance under the line of credit must be reduced to and remain at zero dollars for any consecutive 30-day period during the current term of the line. If the Academy is unable to reduce outstanding advances to zero and remain at zero for a consecutive 30-day period thereafter, the line of credit will be considered in default and will terminate immediately and not renew. For the years ended June 30, 2019 and 2018, there were no outstanding balances on the line of credit.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

12. Net Assets

Net assets included the following:

<i>(in thousands)</i>	2019	2018
Without donor restrictions:		
Operating	\$ (21,379)	\$ (17,747)
Physical plant	22,456	21,972
Quasi-endowment funds	1,496	1,501
Total net assets without donor restrictions	2,573	5,726
With donor restrictions:		
Funds for programs and capital expenditures	9,413	10,048
Funds for endowments	60,383	60,691
Life income annuities	13	25
Beneficial interests in trusts	9,344	8,971
Total net assets with donor restrictions	79,153	79,735
Total net assets	\$ 81,726	\$ 85,461

13. Related Party Transactions

Per an affiliation agreement dated September 2011, the Academy is a subsidiary of Drexel. Drexel provided services valued at \$2,117,648 and \$1,635,086 for the years ending June 30, 2019 and 2018, respectively. The Academy paid the full cost of the services, reported as Services provided by Drexel in the accompanying Statements of Activities. In addition, Drexel provided \$4,152,086 and \$3,872,055 to the Academy for operations in the fiscal years 2019 and 2018, respectively, reported as Support from Drexel University. The total administrative and non-administrative services paid by the Academy in fiscal years 2019 and 2018 are as follows:

<i>(in thousands)</i>	2019	2018
Drexel affiliated support expenses	\$ 2,118	\$ 1,635
Center for Systematic Biology and Evolution	462	273
Environmental Group	176	165
Development and membership	8	-
Public programs	33	3
Administration	61	60
	\$ 2,858	\$ 2,136

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

14. Revenue Recognition

The Academy adopted *Revenue from Contracts with Customers (Topic 606)* effective July 1, 2018 using the retrospective transition method. The Academy assessed the various contractual arrangements for material revenue streams, the impact to internal processes, the control environment, and disclosures, and determined that adoption would not result in a material change to the timing of revenue recognition. For all revenue streams, the impact of adoption was immaterial and the impact of applying the standard retrospectively had no impact on the total revenues or changes in net assets in the prior year presented.

For the Academy's revenue streams, the performance obligations are within contracts with durations of one year or less. Therefore, the optional exemption to not disclose remaining performance obligations was applied.

As the performance obligations are met, revenue is recognized based upon allocated transaction price. In assessing collectability, the Academy has elected the portfolio approach with similar characteristics as a practical expedient. The Academy expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately.

The portfolios, by major revenue stream, are outlined in the table below:

<i>(in thousands)</i>	2019	2018
Other Income		
Affiliate support	\$ 4,152	\$ 3,872
Miscellaneous income	464	200
Vireo rights	40	17
Royalties income	32	22
Sponsorship income	8	30
Total other income	\$ 4,696	\$ 4,141

The Academy receives grant and contract revenue from governmental and private sources, which are considered non-exchange revenue transactions. The Academy generally recognizes revenue associated with the direct and the applicable indirect costs of sponsored programs as the related costs are incurred in accordance with the related cost principles outlined in the grant agreement. The Academy negotiates its federal indirect rate with its cognizant federal agency.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

The following table disaggregates grants and contracts revenue for the years ended June 30, 2019 and 2018:

(in thousands)

	Without donor restrictions	2019 With donor restrictions	Total
Government grants and contracts:			
Federal	1,161	-	1,161
State	(26)	-	(26)
Local	(12)	-	(12)
Private grants and contracts	325	1,594	1,919
Total grants and contracts	1,448	1,594	3,042

(in thousands)

	Without donor restrictions	2018 With donor restrictions	Total
Government grants and contracts:			
Federal	1,117	-	1,117
State	134	-	134
Local	(2)	-	(2)
Private grants and contracts	6,983	-	6,983
Total grants and contracts	8,232	-	8,232

15. Functional and Natural Classification of Expenses

Expenses are presented by functional classification in accordance with the overall service mission of the Academy. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation and interest expenses are allocated based on the square footage occupancy. Plant operations and maintenance represent space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2019 and 2018

Expenses by functional classification for the year ended June 30, 2019 and 2018 consist of the following:

(in thousands)

	2019			
Operating Expenses:	Program Services	Management and General	Fundraising	Total
Salaries and wages	5,866	1,304	301	7,471
Employee benefits	1,628	348	81	2,057
Depreciation and amortization	1,076	42	13	1,131
Interest	-	-	-	-
Other operating expenses	4,964	2,091	573	7,628
Total expenses	13,534	3,785	968	18,287

(in thousands)

	2018			
Operating Expenses:	Program Services	Management and General	Fundraising	Total
Salaries and wages	5,828	1,068	443	7,339
Employee benefits	1,517	268	111	1,896
Depreciation and amortization	1,087	43	13	1,143
Interest	-	-	-	-
Other operating expenses	9,549	1,841	337	11,727
Total expenses	17,981	3,220	904	22,105

16. Subsequent Events

The Academy has evaluated subsequent events from June 30, 2019 through the report issue date, October 24, 2019 and determined that there were no subsequent events requiring adjustment or disclosure.