

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
June 30, 2014 and 2013

The Academy of Natural Sciences of Philadelphia
(A Pennsylvania not-for-profit corporation)
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June 30, 2014 and 2013

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statement 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) as of June 30, 2014 and 2013, and the related statement of activities and of cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Philadelphia, PA

December 9, 2014

The Academy of Natural Sciences of Philadelphia
Statements of Financial Position
As of June 30, 2014 and 2013

	2014	2013
Assets		
Cash	\$ 3,693,953	\$ 1,365,598
Grants and other receivables, net	2,634,082	3,169,061
Unconditional promises to give	898,601	199,379
Investments	54,104,953	48,899,644
Property and equipment, net	21,399,384	21,636,265
Beneficial interest in trusts	9,142,464	7,746,661
Prepaid expenses	169,061	93,085
Total assets	<u>\$ 92,042,498</u>	<u>\$ 83,109,693</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	1,685,116	1,350,584
Deferred revenue	1,169,669	822,744
Postretirement and pension benefits	5,946,275	5,433,694
Other liabilities/due to Drexel	2,000,292	173,779
Line of credit	1,442,681	1,078,218
Long-term debt	544,030	722,680
Total liabilities	<u>12,788,063</u>	<u>9,581,699</u>
Net assets		
Unrestricted	14,189,267	15,277,709
Temporarily restricted	8,479,314	7,897,818
Permanently restricted	56,585,854	50,352,467
Total net assets	<u>79,254,435</u>	<u>73,527,994</u>
Total liabilities and net assets	<u>\$ 92,042,498</u>	<u>\$ 83,109,693</u>

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating support and revenues				
Support from Drexel	\$ 5,008,001	\$ -	\$ -	\$ 5,008,001
Research programs				
Environmental Group	1,334,219	-	-	1,334,219
Center for Systematic Biology and Evolution	477,108	-	-	477,108
Other programs and grants	100,328	3,424	-	103,752
Endowment payout under spending formula	2,077,432	691,824	-	2,769,256
Contributions and bequests	1,879,154	1,740,348	-	3,619,502
Museum admissions	1,538,525	-	-	1,538,525
Public programs income	615,829	-	-	615,829
Membership dues	457,866	-	-	457,866
Museum shop income	85,986	-	-	85,986
Museum restaurant	-	-	-	-
Interest income	7,570	65	-	7,635
Other income	835,467	-	-	835,467
Total support and revenues	<u>14,417,485</u>	<u>2,435,661</u>	<u>-</u>	<u>16,853,146</u>
Net assets released from restriction	2,766,697	(2,766,697)	-	-
Total support, revenues and other revenues	<u>17,184,182</u>	<u>(331,036)</u>	<u>-</u>	<u>16,853,146</u>
Operating expenses				
Services provided by Drexel	3,001,380	-	-	3,001,380
Environmental Group	2,147,199	-	-	2,147,199
Center for Systematic Biology and Evolution	1,608,832	-	-	1,608,832
Public programs	3,550,800	-	-	3,550,800
Museum shop	1,734	-	-	1,734
Museum restaurant	5,435	-	-	5,435
Library	485,021	-	-	485,021
Administration	1,354,906	-	-	1,354,906
Development and membership	842,652	-	-	842,652
Communications	789,995	-	-	789,995
Building operations	1,772,923	-	-	1,772,923
Technology services	293,259	-	-	293,259
Depreciation and amortization	1,094,795	-	-	1,094,795
Interest expense	16,242	-	-	16,242
Other expense	312,842	-	-	312,842
Total expenses	<u>17,278,015</u>	<u>-</u>	<u>-</u>	<u>17,278,015</u>
Change in net assets from operating activities	<u>(93,833)</u>	<u>(331,036)</u>	<u>-</u>	<u>(424,869)</u>
Non-operating activity				
Endowment and other gifts	-	-	1,108,519	1,108,519
Realized/unrealized net gain on investments, net of endowment payout	(7,242)	912,532	5,124,868	6,030,158
Expenses related to frozen defined benefit pension plan	(987,367)	-	-	(987,367)
Change in net assets from non-operating activities	<u>(994,609)</u>	<u>912,532</u>	<u>6,233,387</u>	<u>6,151,310</u>
Change in net assets	(1,088,442)	581,496	6,233,387	5,726,441
Net assets				
Beginning of year	15,277,709	7,897,818	50,352,467	73,527,994
End of year	<u>\$ 14,189,267</u>	<u>\$ 8,479,314</u>	<u>\$ 56,585,854</u>	<u>\$ 79,254,435</u>

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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues				
Support from Drexel	\$ 5,339,106	\$ -	\$ -	\$ 5,339,106
Research programs				
Environmental Group	929,876	-	-	929,876
Center for Systematic Biology and Evolution	1,139,686	-	-	1,139,686
Other programs and grants	29,530	1,584,711	-	1,614,241
Endowment payout under spending formula	2,079,134	815,836	-	2,894,970
Contributions and bequests	200,328	1,628,144	-	1,828,472
Annual fund contributions	1,398,999	5,000	-	1,403,999
Museum admissions	1,205,258	-	-	1,205,258
Public programs income	628,387	-	-	628,387
Membership dues	398,815	-	-	398,815
Museum shop income	134,304	-	-	134,304
Museum restaurant	13,171	-	-	13,171
Interest income	4,761	244	-	5,005
Other income	722,407	7,508	-	729,915
Total support and revenues	<u>14,223,762</u>	<u>4,041,443</u>	<u>-</u>	<u>18,265,205</u>
Net assets released from restriction	3,440,405	(3,440,405)	-	-
Total support, revenues and other revenues	<u>17,664,167</u>	<u>601,038</u>	<u>-</u>	<u>18,265,205</u>
Expenses				
Services provided by Drexel	2,897,754	-	-	2,897,754
Environmental Group	1,850,767	-	-	1,850,767
Center for Systematic Biology and Evolution	1,861,024	-	-	1,861,024
Public programs	2,754,804	-	-	2,754,804
Museum shop	63,597	-	-	63,597
Museum restaurant	3,392	-	-	3,392
Library	526,882	-	-	526,882
Administration	1,288,284	-	-	1,288,284
Development and membership	788,956	-	-	788,956
Communications	819,459	-	-	819,459
Building operations	1,823,174	-	-	1,823,174
Technology services	274,204	-	-	274,204
Depreciation and amortization	854,928	-	-	854,928
Interest expense	10,110	-	-	10,110
Other expense	266,707	-	-	266,707
Total expenses	<u>16,084,042</u>	<u>-</u>	<u>-</u>	<u>16,084,042</u>
Change in net assets from operating activities	1,580,125	601,038	-	2,181,163
Non-operating activity				
Endowment and other gifts			442,665	442,665
Realized/unrealized net gain on investments, net of endowment payout	148,226	427,687	2,237,187	2,813,100
Expenses related to frozen defined benefit pension plan	774,100	-	-	774,100
Change in net assets from non-operating activities	<u>922,326</u>	<u>427,687</u>	<u>2,679,852</u>	<u>4,029,865</u>
Change in net assets	2,502,451	1,028,725	2,679,852	6,211,028
Net assets				
Beginning of year	12,775,258	6,869,093	47,672,615	67,316,966
End of year	<u>\$ 15,277,709</u>	<u>\$ 7,897,818</u>	<u>\$ 50,352,467</u>	<u>\$ 73,527,994</u>

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

The Academy of Natural Sciences of Philadelphia
Statement of Cash Flows
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 5,726,441	\$ 6,211,028
Adjustments to reconcile change in net assets to		
Net cash provided by (used in) operating activities		
Depreciation and amortization of property	1,094,795	854,928
Increase in beneficial interests in trusts	(1,395,803)	(412,094)
Contributions restricted for long-term investment	(1,108,519)	(442,665)
Noncash contributions received	(298,437)	(755,429)
Proceeds from sales of donated securities	93,336	389,563
Actuarial change on annuity liabilities	6,191	-
Realized/unrealized gain on investments	(6,343,621)	(4,594,310)
Changes in operating assets and liabilities		
Grants and other receivables	534,979	(1,174,488)
Unconditional promises to give	(699,222)	183,241
Prepaid expenses	(75,976)	407,361
Accounts payable and accrued expenses	356,092	(216,179)
Postretirement and pension benefits	512,581	(1,389,728)
Deferred revenue	346,925	-
	<u>(1,250,238)</u>	<u>(938,772)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(8,208,111)	(834,101)
Proceeds from sales and maturities of investments	9,514,204	2,737,771
Purchase of buildings, property and equipment	(857,914)	(2,014,293)
	<u>448,179</u>	<u>(110,623)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	1,108,519	442,665
Payments on annuity obligations	(27,751)	-
Proceeds from sales of donated securities	37,320	367,005
Proceeds from short-term borrowings	1,826,513	554,181
Proceeds from long-term borrowings	364,463	1,078,218
Repayment of long-term debt	(178,650)	(177,320)
	<u>3,130,414</u>	<u>2,264,749</u>
Net (decrease) increase in cash and cash equivalents	2,328,355	1,215,354
Cash and cash equivalents at beginning of period	1,365,598	150,244
Cash and cash equivalents at end of period	\$ <u>3,693,953</u>	\$ <u>1,365,598</u>
SUPPLEMENTAL INFORMATION:		
Amounts accrued for purchase of property, plant & equipment	\$ -	\$ 1,358
Donated securities	298,437	-

The Academy of Natural Sciences of Philadelphia

Notes to Financial Statements

June 30, 2014 and 2013

1. Nature of Organization and Summary of Significant Accounting Policies

The Academy of Natural Sciences of Philadelphia (the "Academy") is a non-profit organization that has been granted tax-exempt status under Section 501 (c)(3) of the Internal Revenue Code. The Academy was founded in 1812. On September 30, 2011 the Academy became a non-profit subsidiary of Drexel University ("Drexel").

A summary of the Academy's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared on the accrual basis of accounting. The Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Academy presents a statement of cash flows.

Allowance for Doubtful Accounts

The Academy provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on a review of the current status of the existing receivables.

Accounting for Certain Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Fair values are determined by using quoted market prices where available. No investment or group of investments represents a significant concentration of market risk. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Life Income Gifts

The Academy, which serves as Trustee of these investments, is the recipient of life income gifts under gift annuity and irrevocable split-interest agreements. Assets received are recorded at fair value at the date of the gift and revenue is recognized for the Academy's portion of the remainder interest.

Beneficial Interest 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 valued based on the underlying securities held by the trusts and are primarily composed of equity and fixed income securities that have readily determinable values and would, if not for being held by third parties, be classified as Level 1. 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.

The Academy of Natural Sciences of Philadelphia

Notes to Financial Statements

June 30, 2014 and 2013

Contributions and Revenue Recognition

Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values. Contributions received recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. In addition, donor-restricted contributions, whose restrictions are met in the same reporting period, are included as net assets released from restrictions. Contributions unconditional promises to give, which are exchange transactions, are accounted for under contract accounting in accordance with accounting principles generally accepted in the United States of America. The majority of contracts and other exchange transactions consist of fee for service activities. Revenue recognized on these contracts by the percentage-of-completion method.

Functional Allocation of Services

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

Fund-Raising

Fund-raising costs were \$650,409 and \$850,201 in 2014 and 2013, respectively.

Cash and Cash Equivalents

The Academy considers all unrestricted highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of Net Assets

Resources in the financial statements are classified for accounting and reporting purposes into classes of net assets according to the existence of restrictions which donors place on grants and other gifts as well as designations made by the Board of Trustees. All assets, liabilities, and activities are accounted for in the following net asset classifications:

Unrestricted

Unrestricted net assets are used to account for funds which have not been restricted by donors, and over which the Board has discretionary control.

Temporarily Restricted

Temporarily Restricted net assets are subject to donor-imposed stipulations that may be fulfilled by actions of the Academy to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently Restricted

Permanently Restricted net assets are subject to donor-imposed stipulations that they be retained and invested permanently by the Academy. The donors require the Academy to use net assets for specified or unspecified purposes.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2014 and 2013

Reclassifications

Certain balances in the prior year have been reclassified to conform to the current year's presentation. There was no impact on net assets.

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, 2014 and 2013.

3. Conditional and Unconditional Promises to Give

Conditional

Conditional promises to give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. The Academy had no conditional promises to give for the years ended June 30, 2014 and 2013.

Unconditional

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Unconditional promises to give include the following:

	2014	2013
Unconditional promises to give due in		
Less than one year	\$ 898,601	\$ 167,975
One year to five years	-	33,333
	<u>898,601</u>	<u>201,308</u>
Less: Discount to present value	-	(1,929)
Net unconditional promises to give	<u>\$ 898,601</u>	<u>\$ 199,379</u>

Unconditional promises to give are recorded in the following net asset classification:

	2014	2013
Unrestricted	\$ 36,057	\$ 34,643
Temporarily restricted	362,544	65,877
Permanently restricted	500,000	98,859
	<u>\$ 898,601</u>	<u>\$ 199,379</u>

Unconditional promises to give with a maturity greater than one year that were received are discounted at 1.20%. The fair value of the unconditional promises to give approximates the carrying value as determined by discounting the expected future cash flows by a risk-adjusted rate of return for similar terms to the years in which the promises are received.

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2014 and 2013

4. Investments

At June 30, 2014 and 2013, the fair value of investments included the following:

	<u>Fair Value</u>	
	<u>2014</u>	<u>2013</u>
Equity securities	\$28,553,855	\$ 21,498,399
Fixed Income securities	5,630,769	7,075,074
Alternative investments	13,762,975	12,792,494
Real estate and real assets funds	4,373,069	4,422,248
Money market funds	1,784,285	3,111,429
Total investments	<u>\$ 54,104,953</u>	<u>\$ 48,899,644</u>

5. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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Following is a description of the valuation methodologies used for assets at fair value.

Mutual Funds: Valued at the net asset value of shares held by the Academy at year end.

Alternative Investments: Valued at the net asset value of shares held by the Academy at year end, valued at the closing price reported on the active market on which the individual securities are traded, and valued using a present value methodology derived from the future projected cash flows of each investment.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Academy believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2014 and 2014 and 2013:

	2014			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Beneficial interest in trusts	\$ -	\$ -	\$ 9,142,464	\$ 9,142,464
Investments				
Equity securities	26,213,157	2,340,698	-	28,553,855
Fixed income securities	2,365,885	3,264,884	-	5,630,769
Alternative investments	-	-	13,762,975	13,762,975
Real estate and real asset funds	1,013,588	-	3,359,481	4,373,069
Money market funds	1,784,285	-	-	1,784,285
Total investments	31,376,915	5,605,582	17,122,456	54,104,953
Total assets at fair value	\$ 31,376,915	\$ 5,605,582	\$ 26,264,920	\$ 63,247,417

The Academy of Natural Sciences of Philadelphia
Notes to Financial Statements
June 30, 2014 and 2013

	2013			Total
	Level 1	Level 2	Level 3	
Assets at Fair Value				
Beneficial interest in trusts	\$ -	\$ -	\$ 7,746,661	\$ 7,746,661
Investments				
Equity securities	17,157,367	2,667,457	-	19,824,824
Fixed income securities and bond funds	4,073,378	3,001,696	-	7,075,074
Alternative investments	-	-	12,792,494	12,792,494
Real estate and real asset funds	1,217,683	-	3,512,542	4,730,225
Money market funds	4,477,027	-	-	4,477,027
Total investments	26,925,455	5,669,153	16,305,036	48,899,644
Total assets at fair value	\$ 26,925,455	\$ 5,669,153	\$ 24,051,697	\$ 56,646,305

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

	June 30, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
<i>(in thousands)</i>				
Multi-Strategy Hedge Funds (a)	\$ 3,557	\$ -	Annual	45-60 days
Distressed Debt Hedge Funds (b)	1,299		Annual	90 days
Fixed Income and Related Hedge Funds (c)	2,947		Monthly/Quarterly	45/65 days
Private Capital Funds-Secondaries (d)	664	1,150		
Private Capital Funds-Buy-out (e)	2,245	587		
Real Asset Funds (f)	1,952	1,248		
Real Estate Funds (g)	1,407	290		
Long/Short Equity Hedge Funds (h)	3,051		Annual/Quarterly	95/45 days
	\$ 17,122	\$ 3,275		

- a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2014, the composite portfolio includes approximately 47% in distressed investments with a liquidation period of 1 to 3 years, 18% long/short equity, 22% arbitrage opportunities, 5% cash, and 7% 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. 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 net asset value per share of the hedge fund.

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- b. This category includes investments in hedge funds that invest in debt of companies that are in or facing bankruptcy. The investment managers seek to liquidate these investments in 1 to 3 years. The fair values of the investments have been estimated using the net asset value per share of the hedge fund.
- c. This category includes investment in hedge funds that invest in: U.S. mortgage backed securities, publicly traded corporate bonds, and sovereign debt and currency forward contracts of emerging market countries. The fair values of the investments have been estimated using the net asset value per share of the hedge fund.
- 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 the underlying assets of the fund will be liquidated over 2 to 11 years, given the addition of the new investment. The fair value has been estimated using the 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 or some business. These investments are primarily in U.S. technology and healthcare companies, with one investment dedicated to Asian companies. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the fund will be liquidated over 1 to 3 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 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 the underlying assets of the fund will be liquidated over 3 to 10 years. The fair value has been estimated using the net asset value per share of the real asset fund.
- g. 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 the underlying assets of the fund will be liquidated over the following time frames: approximately 53% in 1 to 3 years and 47% in 4 to 6 years. The fair value has been estimated using the net asset value per share of the real estate fund.
- h. This category includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. The fair values of the investments have been estimated using the net asset value per share of the hedge fund

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The following table sets forth a summary of changes in the fair value of the Academy's level 3 assets for the years then ended June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	\$ 24,051,697	\$ 20,064,091
Transfers into level 3	532,809	7,334,567
Transfers out of level 3	-	(2,611,614)
Net unrealized gains	2,487,713	1,480,013
Net realized gains	225,278	842,964
Purchases	1,022,815	1,025,398
Sales	(2,055,392)	(4,083,722)
Balance at end of year	<u>\$ 26,264,920</u>	<u>\$ 24,051,697</u>

6. Endowments

The Academy's endowments consist of approximately 55 individual funds established to support a variety of purposes. The endowment includes both donor restricted funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with the endowment are classified and reported based on the existence or absence of donor imposed restrictions. The Academy classifies all donor restricted endowment gifts as permanently restricted net assets. Income, gains and losses whose use is subject to donor restrictions, net of spending, are recorded in the permanently restricted fund. Income, gains and losses whose use is not subject to donor restrictions are classified as unrestricted net assets.

Endowment net assets consisted of the following as of June 30, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated fund	\$ 1,036,394	\$ -	\$ -	\$ 1,036,394
Donor restricted endowments		5,418,899	47,156,964	52,575,863
	<u>\$ 1,036,394</u>	<u>\$ 5,418,899</u>	<u>\$ 47,156,964</u>	<u>\$ 53,612,257</u>

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated fund	\$ 1,371,405	\$ -	\$ -	\$ 1,371,405
Donor restricted endowments		5,019,161	42,248,046	47,267,207
	<u>\$ 1,371,405</u>	<u>\$ 5,019,161</u>	<u>\$ 42,248,046</u>	<u>\$ 48,638,612</u>

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The following tables set forth a summary of changes in Endowment net assets for the years ended June 30, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 1,371,405	\$ 5,019,161	\$ 42,248,045	\$ 48,638,611
Investment return:				
Investment income, net of fees	31,099	-	125,671	156,770
Net realized gain / (loss)	29,919	81,821	730,076	841,816
Net unrealized gain / (loss)	245,495	671,353	5,990,410	6,907,258
Reclassification for funds with deficiencies	(437,000)	437,000	-	-
Total investment return	<u>(130,487)</u>	<u>1,190,174</u>	<u>6,846,157</u>	<u>7,905,844</u>
Contributions	-	-	707,000	707,000
Endowment asset use:				
Annual transfer for operations	(124,650)		(2,644,238)	(2,768,888)
Other transfers	(79,875)	(790,436)		(870,311)
Total endowment asset use	<u>(204,525)</u>	<u>(790,436)</u>	<u>(2,644,238)</u>	<u>(3,639,199)</u>
Endowment net assets at end of year	<u>\$ 1,036,393</u>	<u>\$ 5,418,899</u>	<u>\$ 47,156,964</u>	<u>\$ 53,612,256</u>

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 1,482,097	\$ 4,057,082	\$ 40,141,509	\$ 45,680,688
Investment return:				
Investment income, net of fees	11,993	8,286	517,500	537,779
Net realized gain / (loss)	-	-	-	-
Net unrealized gain / (loss)	292,389	414,693	3,841,693	4,548,775
Reclassification for funds with deficiencies	-	-	-	-
Total investment return	<u>304,382</u>	<u>422,979</u>	<u>4,359,193</u>	<u>5,086,554</u>
Contributions	1,000	20,000	281,446	302,446
Endowment asset use:				
Annual transfer for operations	(416,074)	-	(2,534,103)	(2,950,177)
Other transfers	-	519,100	-	519,100
Total endowment asset use	<u>(416,074)</u>	<u>519,100</u>	<u>(2,534,103)</u>	<u>(2,431,077)</u>
Endowment net assets at end of year	<u>\$ 1,371,405</u>	<u>\$ 5,019,161</u>	<u>\$ 42,248,045</u>	<u>\$ 48,638,611</u>

The Academy's endowment portfolio is invested with the objective of providing long term capital growth and to meet the annual budget needs. The endowment assets are invested in a diversified manner with the mix of asset classes set so as not to be highly correlated. The primary investment objective is to achieve a sufficient long-term return to preserve the purchasing power of the assets, plus an amount to support future activities.

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The spending policy uses a total return spending approach to calculate the annual amount available for spending. This approach, spending a set percentage of a rolling average market value of seven years, balances the need to protect endowed assets from a decrease in purchasing power with the needs of the Academy. The current spending percentage is 6.5%.

Donor restricted gifts that provide special spending instructions are not included in the three-year rolling average calculation. Spending on these gifts follow specific instructions imposed by the donor.

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 funds with deficiencies is reported in unrestricted net assets in the consolidated 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. Subsequent gains above that amount will be recorded as temporarily restricted net assets. Aggregate deficiencies for the years ended June 30, 2014 and 2013 were approximately \$438,000 and \$1,100,000 respectively.

7. Property and Equipment

Property and equipment consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Buildings	\$ 21,071,437	\$ 20,764,268
Equipment	12,102,291	11,553,639
Less: Accumulated depreciation and amortization	<u>(11,774,344)</u>	<u>(10,681,642)</u>
Net Fixed Assets	<u>\$ 21,399,384</u>	<u>\$ 21,636,265</u>

Depreciation and amortization expenses for the years ended June 30, 2014 and 2013 were \$1,094,795 and \$854,928 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 as temporarily or permanently 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.

9. Pension Plan

Through December 31, 2009, the Academy offered participation in either a defined benefit pension plan or a defined contribution pension plan. These plans covered all full-time employees with a minimum of one year of service.

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The Board of Trustees approved freezing the Academy's Defined Benefit Pension Plan, along with the TIAA-CREF Defined Contribution Plan, effective December 31, 2009, replacing them with a new Defined Contribution 403(b) Retirement Plan for all eligible Academy employees, effective January 1, 2010.

The new defined contribution plan does not provide for a defined employer contribution. The Board of Directors may declare an employer contribution at its discretion. The defined contribution plan is a calendar year plan, with declared employer contributions made at the conclusion of the plan year. Matching contributions are based on a participant's compensation and allocated to employee accounts annually. Only participants who make 403(b) contributions, who complete 1,000 hours of service unless their employment ends due to retirement, disability, or death and who are actively employed on the last day of the allocation period shall be eligible to share in the matching contribution for such allocation period. Employees can receive a grandfathered match of 3% of their salary if they have either reached the age of 49 and completed at least 10 years of service, or reached the age of 45 and completed at least 15 years of services as of December 31, 2009. The Academy approved and made contributions totaling \$87,591 and \$86,576 in 2014 and 2013, respectively.

The assumptions for the pension liabilities, the accumulated benefit obligation, change in projected benefit obligation, and change in plan assets are noted as follows:

	<u>2014</u>	<u>2013</u>
Weighted average assumptions as of June 30		
Discount rate	4.40 %	5.00 %
Expected return on plan assets	6.50 %	6.75 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	\$ 16,193,353	\$ 14,841,014
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 14,841,014	\$ 15,468,162
Service cost	125,000	92,000
Interest cost	724,753	664,799
Actuarial (gain)/loss	1,191,670	(771,364)
Benefits paid	(689,084)	(612,583)
Benefit obligation at end of year	<u>\$ 16,193,353</u>	<u>\$ 14,841,014</u>

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	<u>2014</u>	<u>2013</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 9,337,491	\$ 8,644,740
Actual return on plan assets	1,054,056	759,535
Employer contributions	566,398	545,799
Benefits paid	<u>(689,084)</u>	<u>(612,583)</u>
Fair value of plan assets at end of year	<u>\$ 10,268,861</u>	<u>\$ 9,337,491</u>
Fair value of plan assets	\$ 10,268,861	\$ 9,337,491
Benefit obligation	<u>(16,193,353)</u>	<u>(14,841,014)</u>
Net amount recognized at end of year*	<u>\$ (5,924,492)</u>	<u>\$ (5,503,523)</u>

* 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:

	<u>2014</u>	<u>2013</u>
Weighted average assumptions used to used to determine net periodic benefit cost		
Discount rate	5.00 %	4.40 %
Expected return on plan assets	6.75 %	6.75 %
Components of net periodic benefit cost		
Service cost	\$ 125,000	\$ 92,000
Interest cost	724,753	664,799
Expected return on assets	(628,990)	(587,201)
Amortization of actuarial (gain) loss	<u>766,604</u>	<u>(943,698)</u>
Net periodic benefit cost	<u>\$ 987,367</u>	<u>\$ (774,100)</u>

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As of June 30, 2014 and 2013 the pension plan had a projected benefit obligation in excess of plan assets and an accumulated benefit obligation in excess of plan assets. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan are as follows:

	Projected Benefit Obligation Exceeds Fair Value of Plan Assets	
	<u>2014</u>	<u>2013</u>
Projected benefit obligation	\$ 16,193,353	\$ 14,841,014
Fair value of plan assets	10,268,861	9,337,491

	Accumulated Benefit Obligation Exceeds Fair Value of Plan Assets	
	<u>2014</u>	<u>2013</u>
Accumulated benefit obligation	\$ 16,193,353	\$ 14,841,014
Fair value of plan assets	10,268,861	9,337,491

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

Expected benefit payments

2015	711,014
2016	758,633
2017	830,298
2018	903,592
2019	948,984
2020-2024	\$ 5,166,975

Plan Assets

The Academy's pension plan weighted-average asset allocations at June 30, 2014 and 2013 by asset category are as follows:

	<u>2014</u>	<u>2013</u>
Asset Category		
Equity Securities	34.3%	30.6%
Fixed Income Securities	36.3%	37.5%
Alternative investments	11.2%	28.0%
Cash	18.3%	3.9%
	<u>100.0%</u>	<u>100.0%</u>

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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%, 27%, 37%, 2% allocation between equity, alternative investments, fixed income investments and cash. The strategy currently utilizes indexed equity funds and 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 following table sets forth by level, within the fair value hierarchy, the Academy pension plan assets at fair value at June 30, 2014 and 2013:

	2014			
	Level 1	Level 2	Level 3	Total
Assets at fair value				
Cash equivalents	\$ 1,862,153	\$ -	\$ -	\$ 1,862,153
Mutual funds	6,691,156	-	-	6,691,156
Alternative investments	-	494,425	1,221,127	1,715,552
Total assets at fair value	<u>\$ 8,553,309</u>	<u>\$ 494,425</u>	<u>\$ 1,221,127</u>	<u>\$ 10,268,861</u>

	2013			
	Level 1	Level 2	Level 3	Total
Assets at fair value				
Cash equivalents	\$ 356,102	\$ -	\$ -	\$ 356,102
Mutual funds	5,884,606	-	-	5,884,606
Alternative investments	-	463,343	2,633,440	3,096,783
Total assets at fair value	<u>\$ 6,240,708</u>	<u>\$ 463,343</u>	<u>\$ 2,633,440</u>	<u>\$ 9,337,491</u>

Certain balances in the prior year have been reclassified to reflect the transfer of funds from Level 3 to Level 2.

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The following table sets forth a summary of changes in the fair value of the Academy Plan's Level 3 assets for the years ended June 30, 2014 and 2013:

	2014	2013
Assets at beginning of year	\$ 2,633,440	\$ 2,570,672
Net investment income	29,303	20,138
Net realized gain (loss)	160,534	-
Net unrealized gain (loss)	85,731	213,976
Net transfers in (out)	\$ (1,687,881)	(171,346)
Assets at end of year	<u>\$ 1,221,127</u>	<u>\$ 2,633,440</u>

10. Other liabilities/due to Drexel

Includes amounts due to/from Drexel University and other liabilities. The amount due Drexel is \$2,000,292 and \$173,779 at June 30, 2014 and 2013 respectively. The intercompany accounts are repaid on a periodic basis.

11. Line of Credit

The Academy has an unsecured line of credit with Drexel University. 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 University 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, 2014 and 2013, balances on the line of credit were \$1,442,681 and \$1,078,218, respectively.

12. Long-Term Debt

On February 1, 2012 the Academy entered into a \$900,000 five-year unsecured term loan agreement with Drexel University. Interest on the outstanding principal of the term loan accrues at a rate per annum of 0.75%. The five-year term loan allows for prepayment in full or in part, without premium or penalty at any time, provided the Academy may not re-borrow any such amounts prepaid.

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The principal repayment schedule for the Drexel five-year term loan is as follows:

2015	179,990
2016	181,340
2017	182,700
2018	-
	<u>\$ 544,030</u>

13. Net Assets Released From Restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Operating		
Research programs	\$ 517,020	\$ 2,154,724
Public programs	868,727	632,801
Other programs	1,380,949	652,880
	<u>\$ 2,766,696</u>	<u>\$ 3,440,405</u>

14. Restriction on Assets

Net assets include the following:

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Undesignated	\$ (8,246,511)	\$ (7,297,524)
Physical plant	21,399,384	21,636,265
Quasi-endowment funds	1,036,394	938,968
Total unrestricted	<u>14,189,267</u>	<u>15,277,709</u>
Temporarily restricted:		
Support of designated programs	8,449,125	7,637,880
Life income gifts	30,189	259,938
Total temporarily restricted	<u>8,479,314</u>	<u>7,897,818</u>
Permanently restricted:		
Endowment	47,699,019	42,348,960
Beneficial interests in trust	8,886,835	8,003,507
Total permanently restricted	<u>56,585,854</u>	<u>50,352,467</u>
Total net assets	<u>\$ 79,254,435</u>	<u>\$ 73,527,994</u>

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15. Accounting for Uncertainty in Income Taxes

The Academy is a nonprofit organization that has been granted tax exempt status under Section 501 (c)3 of the Internal Revenue Code. 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.

Accounting principles generally accepted in the United States of America require Management to evaluate tax positions taken by the Academy and recognize a tax liability (or asset) if it has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management believes the Academy has not taken an uncertain position as defined in the accounting literature.

16. Related Party Transactions

Per an affiliation agreement dated September 2011, the Academy of Natural Sciences is a subsidiary of Drexel University. Drexel provided services valued at \$3,001,890 and \$2,897,754 for the years ending June 30, 2014 and 2013, respectively. The Academy paid the full cost of the services, reported as Services provided by Drexel University in the accompanying statements of activities. In addition, Drexel provided \$5,008,001 and \$5,339,106 to the Academy for operations in the fiscal years 2014 and 2013, respectively, reported as Support from Drexel University. The total administrative and non-administrative services paid by the Academy in fiscal years 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Drexel Affiliated Support Expenses	\$ 3,001,380	\$ 2,897,754
Center for Systematic Biology and Evolution	201,042	252,944
Environmental group	363,579	127,559
Public programs	3,500	125,886
Administration	48,102	-
	<u>\$ 3,617,603</u>	<u>\$ 3,404,143</u>

17. Subsequent Events

The Academy has evaluated events subsequent to through the report issue date, December 9, 2014.