THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA

(A PENNSYLVANIA NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT

JUNE 30, 2012

THE ACADEMY OF NATURAL
SCIENCES OF PHILADELPHIA
(A PENNSYLVANIA NOT-FOR-PROFIT CORPORATION)

SIX MONTHS ENDED JUNE 30, 2012

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying statements of financial position of The Academy of Natural Sciences of Philadelphia (a Pennsylvania not-for-profit corporation) as of June 30, 2012, and the related statements of activities and cash flows for the six month period then ended. These financial statements are the responsibility of The Academy of Natural Sciences of Philadelphia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the six month period then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2012, on our consideration of The Academy of Natural Sciences of Philadelphia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
The Academy of Natural Sciences of Philadelphia
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Our audit was conducted for the purpose of forming an opinion on the financial statements of The Academy of Natural Sciences of Philadelphia as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Jamison, Pennsylvania
October 10, 2012

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

	2012
Cash (Note 2)	$ 150,244
Accounts Receivable, Net of Reserve for Uncollectible Accounts (2012 - $73,416) (Note 1B)	1,830,589
Grants Receivable (Note 3)	163,984
Unconditional Promises to Give (Notes 1G and 4)	382,620
Investments (Notes 1C, 1D, and 6)	46,210,143
Property and Equipment, Net of Accumulated Depreciation and Amortization (2012 - $9,675,091) (Notes 1E and 9)	20,476,900
Beneficial Interest in Perpetual Trusts (Note 1F)	7,334,567
Other Assets (Note 10)	500,446
Total Assets	$ 77,049,493

LIABILITIES AND NET ASSETS

Liabilities	
Accounts Payable and Accrued Expenses	$ 512,358
Contracts and Other Exchange Transactions (Note 1G)	366,146
Other Liabilities (Notes 5, 11, and 20)	7,954,023
Long-term Debt (Note 14)	900,000
Total Liabilities	9,732,527
Net Assets (Note 16)	
Unrestricted	12,775,258
Temporarily Restricted	6,869,093
Permanently Restricted	47,672,615
Total Net Assets	67,316,966
Total Liabilities and Net Assets	$ 77,049,493

See accompanying notes to financial statements.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENT OF ACTIVITIES
SIX MONTHS ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues (Note 1G)				
Support from Parent	$ 1,232,605	$ -	$ -	$ 1,232,605
Research Programs				
Environmental Group	495,344	441,658	-	937,002
Center for Systematic Biology and Evolution	74,326	696,751	-	771,077
Other Programs and Grants	172,971	68,534	-	241,505
Endowment Income	1,057,297	334,247	-	1,391,544
Contributions and Bequests (Note 1G)	374,348	(80,072)	296,539	590,815
Annual Fund Contributions	680,340	-	-	680,340
Museum Admissions	559,903	206	-	560,109
Public Programs Income	227,107	197,711	-	424,818
Membership Dues	164,044	-	-	164,044
Museum Shop Income	236,265	107	-	236,372
Museum Restaurant	29,336	-	-	29,336
Gain from adjusting Building to Fair Value	5,869,233			5,869,233
Net Realized/Unrealized Gains (Losses) (Notes 1C, 1F, and 6)	20,287	224,249	1,097,862	1,342,398
Interest Income	144	4,759	-	4,903
Other Income	137,437	42,627	-	180,064
Total Support and Revenues	11,330,987	1,930,777	1,394,401	14,656,165
Net Assets Released From Restriction (Note 15)	2,209,160	(2,209,160)	-	-
Total Support, Revenues and Other Revenues	13,540,147	(278,383)	1,394,401	14,656,165

See accompanying notes to financial statement.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENT OF ACTIVITIES (CONTINUED)
SIX MONTHS ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Environmental Group	$ 1,177,264	$ -	$ -	$ 1,177,264
Center for Systematic Biology and Evolution	1,310,731	-	-	1,310,731
Public Programs	1,855,058	-	-	1,855,058
Museum Shop	272,424	-	-	272,424
Museum Restaurant	2,033	-	-	2,033
Library	487,225	-	-	487,225
Administration	858,329	-	-	858,329
Development and Membership	460,100	-	-	460,100
Communications	295,657	-	-	295,657
Building Operations	928,987	-	-	928,987
Computer Services	174,340	-	-	174,340
Depreciation and Amortization	529,334	-	-	529,334
Interest Expense	6,060	-	-	6,060
Other Expense	277,423	-	-	277,423
Total Expenses	8,634,965	-	-	8,634,965
Increase (Decrease) in Net Assets before cumulative effect of change in Accounting Principle	4,905,182	(278,383)	1,394,401	6,021,200
Cumulative effect of change in Accounting Principle Pension related changes other than net periodic pension cost	(912,603)	-	-	(912,603)
Changes in Net Assets	3,992,579	(278,383)	1,394,401	5,108,597
Net Assets, Beginning of Year	8,782,679	7,147,476	46,278,214	62,208,369
Net Assets, End of Year	$ 12,775,258	$ 6,869,093	$47,672,615	$ 67,316,966

See accompanying notes to financial statements

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2012

	2012
Cash Flows From Operating and Nonoperating Activities	
Increase in Net Assets	$ 5,108,597
Adjustment to Reconcile Increase (Decrease) in Net Assets to Net Cash Used in Operating and Nonoperating Activities:	
Depreciation and Amortization	628,525
Realized and Unrealized Gains	(2,515,107)
Gain from adjusting Building to Fair Value	(5,869,233)
Change in Value of Perpetual Trusts	(93,069)
Contributions Unrestricted by Perpetual Trusts Held by Third Parties	(90,000)
Contributions Temporarily Restricted by Perpetual Trusts Held by Third Parties	(49,310)
Contributions Restricted for Endowment	(300,000)
(Increase) Decrease in Operating Assets	
Accounts Receivable	(626,253)
Grants Receivable	92,164
Other Assets	296,451
Unconditional Promises to Give	(128,513)
Increase (Decrease) in Operating Liabilities	
Accounts Payable and Accrued Expenses	(87,068)
Contracts and Other Exchange Transactions	(186,080)
Other Liabilities	1,302,377
Net Cash Used in Operating and Nonoperating Activities	(2,516,519)
Cash Flows From Investing Activities	
Proceeds From Sale of Investments	2,752,838
Purchase of Investments	(167,701)
Capital Expenditures	(542,588)
Net Cash Provided by Investing Activities	2,042,549
Cash Flows From Financing Activities	
Net Repayments on Long-Term Debt	(200,000)
Proceeds From Contributions Restricted for Endowment	300,000
Net Cash Provided by Financing Activities	100,000
Net Decrease in Cash	(373,970)
Cash - Beginning of Year	524,214
Cash - End of Year	$ 150,244
Supplemental Disclosure of Cash Flow Information:	
Cash Paid During the Year for:	
Interest, Net of Amounts Capitalized	$ 6,060

See accompanying notes to financial statements.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Academy of Natural Sciences of Philadelphia (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 was founded in 1812. On September 30, 2011 the Academy became a non-profit subsidiary of Drexel University (see notes 19 and 21).

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

A) <u>Basis of Accounting and Financial Statement Presentation</u>

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.

Per an affiliation agreement dated September 30, 2011, the Academy has merged with Drexel University. A requirement of the affiliation is that the Academy have a building valuation completed by June 30, 2012. See note 1(E).

B) <u>Allowance for Doubtful Accounts</u>

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.

C) <u>Accounting for Certain Investments</u>

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. Investments are in a common pool and have been presented in the financial statements at fair value.

D) <u>Life Income Gifts</u>

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.

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E) Property and Equipment

Drexel University has selected to use push-down accounting and directed the Academy to adjust the carrying value of the building and building improvements from cost to fair market value. The university engaged two real estate appraisal firms to provide a current market value for the Academy's building. The university selected the appraisal provided by Integra Reality which appraised the building at $19,100,000.

Vehicles and equipment will continue to be carried at cost. Equipment under capital lease is amortized over the lesser of the term of the lease or the estimated useful life of the asset. Depreciation and amortization are computed using the straight-line method over the estimated useful lives ranging from three to fifty years. Repairs and maintenance costs are charged to expense as incurred. Values of the existing scientific and library collections are not readily determinable, and therefore, are not recorded on the financial statements. ANS capitalizes all assets in excess of $2,500 with useful lives over three years.

F) Beneficial Interest in Perpetual Trusts

Under the terms of various perpetual trusts held and administered by third parties, the Academy is the beneficiary of income earned on those trusts' assets in perpetuity. The Academy recognized the fair value of those trusts' assets as permanently restricted contribution revenue and an asset (beneficial interest in perpetual trusts) when it is notified of the trusts' existence. Changes in the fair value of the trusts' assets are recognized in the period the change occurs as permanently restricted unrealized gains or (losses). The change in value recognized in 2012 was $232,379. The Academy records income, in the period it is received from the trusts, as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. Interest income received was as follows:

	2012
Unrestricted	$ 90,000
Temporarily Restricted	49,310
	$ 139,310

G) 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 are 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 or 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 is recognized on these contracts by the percentage-of-completion method.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G) 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.

H) Fund-raising

Fund-raising costs were $494,339 in 2012.

I) Cash and Cash Equivalents

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

J) 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.

K) 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 (CONTINUED)
JUNE 30, 2012

NOTE 2: CASH CONCENTRATION

The Federal Deposit Insurance Corporation ("FDIC") beginning December 31, 2010 and continuing through December 31, 2012 provides for unlimited coverage to noninterest-bearing checking accounts where depositors are permitted to make an unlimited number of transfers and withdrawals, and the bank does not retain the right to require advance notice of a withdrawal. The Academy's main checking account meets these criteria. Accounts not meeting the criteria are subject to the $250,000 limit set by the FDIC per banking institution. A summary of the insured and uninsured cash balance is as follows:

	2012
Total Cash in Bank	$ 339,467
Portion Insured by FDIC	(339,467)
Uninsured Cash Balance	$ -

NOTE 3: 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, 2012.

NOTE 4: 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 six months ended June 30, 2012.

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:

	2012
Unconditional Promises to Give Due in:	
Less than One Year	$ 226,988
One Year to Five Years	161,544
	388,532
Less: Discount to Present Value	(5,912)
Net Unconditional Promises to Give	$ 382,620

NOTE 4: CONDITIONAL AND UNCONDITIONAL PROMISES TO GIVE (CONTINUED)

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

	2012
Temporarily Restricted	$ 186,081
Permanently Restricted	196,539
Total	$ 382,620

Unconditional promises to give with a maturity greater than one year that were received were 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.

NOTE 5: LIFE INCOME GIFTS

The Academy is the recipient of contributions under Life Income agreements. Under the terms of the instruments of transfer, the interest income attributable to the property transferred (cash or securities) is paid to the income beneficiaries over the life of the contributor and/or the lives of the beneficiaries, as specified by the contributors. The agreements provide for the payment of distributions to the grantor or other designated beneficiaries over the agreements' term (usually the designated beneficiary's lifetime). At the end of the split-income agreement(s) term(s), the Trustee will sever from the plan an amount equal to the value of the remainderman interest in the transferred property and transfer it to the Academy for its general use and purposes or for donor-imposed purposes.

The portion of the trust attributable to the future interest of the Academy is recorded in the statement of activities as either unrestricted or temporarily restricted contributions and bequests, as identified in the agreement, in the period the agreement is established. The Academy has recorded the assets of the plans at fair value at the date of the gifts (see Note 6) in the statement of financial position. On an annual basis, the Academy revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 1.20% and applicable mortality tables.

The liability for distributions included in other liabilities in the statements of financial position at June 30, 2012, is $308,490.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 6: INVESTMENTS

Investments in marketable securities of Capital Projects and the Endowment are presented in the financial statements at fair value at June 30, 2012 and consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Other Projects	$ 10,355	$ -	$ -	$ 10,355
Life Income Gifts	19,051	500,049	-	519,100
Board Designated Funds	1,482,097	-	-	1,482,097
Donor Restricted Endowments	-	4,057,082	40,141,509	44,198,591
	$ 1,511,503	$ 4,557,131	$ 40,141,509	$ 46,210,143

Investments, held by PNC Mellon, Vanguard, Goldman Sachs, Morgan Stanley, Madison International Realty, Verdis, Fir Tree, Aberdeen, Artio, Artisian, Colchester, Frontegra, PIMCO, Forester, and Harbor are composed of the following as of June 30, 2012:

	Cost	Fair Value
Investments at Fair Value as		
Determined by Quoted Market Prices:		
Mutual Funds		
Equity	$17,747,295	$18,777,601
Real Assets	2,050,128	1,807,245
Bond	4,850,348	5,015,557
Time Deposits	545,649	545,649
	25,193,420	26,146,052
Investments at Estimated Fair Value:		
Fixed Income Securities	2,611,945	2,611,614
Real Estate and Commodities	3,099,055	3,394,240
Masters Limited Partnership	-	-
Derivative Financial Instruments	10,249,967	10,801,818
Private Equity Investments	3,247,699	3,256,419
	$44,402,086	$46,210,143

NOTE 6: INVESTMENTS (CONTINUED)

The Academy's Finance Committee approved an investment strategy that includes an allocation to hedge funds and private equities.

Derivative financial instruments consist of investments in eight alternative investment funds. The funds consist of investments in Morgan Stanley, Addison Clark, Owl Creek, Fir Tree Inc., Forester, Mason Capital and two funds from Goldman Sachs. The Morgan Stanley International Fund of Hedge Funds LP (the "Partnership") has a carrying value in 2012, which approximates fair value, of $213,026. The fair value was derived from the audited financial statements of the Morgan Stanley International Fund of Hedge Funds LP. The fair value of the Partnership is based on the net asset value of the Fund. The Partnership values its investments in Investment Funds, which ordinarily will be the amount equal to the pro rata interest in the net assets of such funds, as supplied by the investment manager. The Investment Funds value their underlying investments in accordance with policies established by each investment fund, as described in each of their financial statements and offering memoranda. Where no value is readily available from the Investment Fund or the value is not deemed sufficient, Morgan Stanley will determine the fair value in accordance with procedures adopted by their Board. Derivatives are an integral part of many of the Partnership's investment strategies.

The Partnership's investment objective is to seek capital appreciation principally by investing in Investment funds managed by third-party investment managers who employ a variety of alternative investment strategies. Investments of the Partnership are selected from a wide range of Investment Funds in order to create a broad-based portfolio of such Investment Funds while seeking to invest in compelling investment strategies and managers.

Limited Partnership interests are generally issued at the beginning of each calendar quarter, unless otherwise determined at the discretion of the General Partner. Additional subscriptions for interest by eligible investors are accepted into the Partnership at net asset value. The Partnership may from time to time offer to repurchase Interests at net asset value.

Addison Clark Fund L.P. (the Partnership) is a Delaware limited partnership. The investment has an aggregate cost and fair value at June 30, 2012, of $941,306 and $1,018,688, respectively. The Partnership's general partner is Addison Clark Capital, LLC, a Delaware Limited Liability Company, (General Partner), and also serves as the management company which is responsible for managing the Partnership's portfolio. The Partnership's investment objective is to provide its investors with superior returns over the long term while minimizing the probability of permanent impairment of capital. The partnership seeks to achieve superior returns from capital appreciation primarily through investing in publicly traded securities in the U.S. equity market, with a focus on undervalued companies. The partnership also selectively uses short positions which can provide opportunities to reduce capital risk and increase total return. The Partnership's specific objectives are to; (i) determine attractive long investments by conducting detailed analysis of company financial statements, focusing on free cash flow, growing, moderately predictable earnings, and identifying management teams that behave like owners; (ii) identify short investments with material fundamental accounting issues, overseen by management teams that are overly promotional and that misallocate capital and with stock valuations well in excess of intrinsic business value; and (iii) generate after-tax performance through multi-year investment horizons and lower turnover on long positions.

NOTE 6: INVESTMENTS (CONTINUED)

Partnership assets may, at any given time, include securities and other financial instruments or obligations which are thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts. Such investments may be extremely difficult to value with any degree of certainty. Investments in privately placed securities of private companies will generally be valued at the lower cost of cost or fair market value and typically would only be marked below cost if there has been a significant change in the investment. The General Partner, in its sole discretion, may alternatively determine to value such investments at fair market value (without regard to whether it is lower than cost). With respect to privately placed securities of publicly traded companies, the Partnership anticipates that it will value such securities based on the price of the publicly traded shares less an appropriate discount to reflect their illiquidity. These investments may be extremely difficult to accurately value.

Fir Tree Capital Opportunities Fund, Ltd. (the Fund), is a Cayman Islands exempt company. The investment has an aggregate cost and fair value at June 30, 2012 of $2,372,344 and $2,538,016, respectively. Fir Tree Inc. serves as the Fund's investment manager. The capital of the Fund consists of 5,000,000 shares, par value $0.01 per share, divided into 100 management shares and 4,999,900 participating shares, which shall be further divided into separate classes and series as needed, including classes of non-marketable shares. Net asset valuations of the Fund, each series of shares will be calculated by the investment manager as of the close of business on the last day of each month, or such other days as may from time to time be determined by the Fund using U.S. generally accepted accounting principles as a basis. To the extent feasible, liabilities are accrued as of each valuation date.

The Fund's objective is to achieve long-term capital appreciation primarily through investments that have a credit and/or capital structure arbitrage component. The investment manager seeks to achieve this objective primarily through generating profits from changes in the price of its security investments and from interest payments on its debt security investments. The Fund will generally employ a value approach to investing, focusing on net assets values, the sustainability of cash flows, private market values and liquidation values. The investment manager intends to take long and short positions and where appropriate may establish capital structure arbitrage positions.

The Fund's investment position will primarily consist of corporate bonds, bank debt, trade obligations, and equity securities. The investment manager may employ techniques to hedge investment risk, including without limitation, the use of futures, forward contracts, and options, swaps and short positions.

The Global Opportunities Fund (Offshore) has an aggregate cost and fair value at June 30, 2012 of $1,828,472 and $1,987,972, respectively.

Goldman Sachs' Global Opportunities Fund (Offshore) is a relative value hedge fund that uses long/short positioning to capitalize on opportunities throughout the global fixed income and foreign exchange markets.

NOTE 6: INVESTMENTS (CONTINUED)

The Goldman Sachs Global Fundamental Strategies had residual aggregate cost and fair value at June 30, 2012 of $79,474 and $69,547, respectively.

The aggregate fair value of Global Fundamental Strategies Funds is derived from audited financial statements of the respective Investment Funds. The assets of each Investment Fund will be valued by the Administrator of the Fund in accordance with the following: (i) the assets of the Investment Fund that are invested in Investment Manager Funds shall be valued in accordance with the terms of the respective governing agreement of each Investment Fund Manager as reported to the Investment Fund by the Investment Manager, (ii) all other assets of the Investment Fund of which market quotation are readily available will be assigned a value based on the quotations, and (iii) all other assets for which market quotations are not readily available shall be determined by a party selected by and independent of Goldman Sachs.

Goldman Sachs Global Fundamental Strategies use Investment Managers that employ event driven strategies that identify companies that are subject to periodic corporate events such as restructurings, mergers, takeovers, spin-offs and other special situations. The objective is to profit from the mispricings that occur due either to the market's misperceptions about such events or to the risks of such events either occurring or not occurring.

A shareholder has the right, provided its shares are fully paid, to redeem some or all of its shares, upon 45 days prior written notice, as of the time immediately prior to the opening of business on the first day of each calendar quarter occurring on or after the first anniversary of the purchase of such Shares by the Shareholder, subject to certain other restrictions in the Offering Memorandum. Shares will be redeemed at a per Share price based upon the net asset value of the Fund as of the close of business on the day immediately preceding the Redemption date.

Forester Offshore Fund is an exempt company incorporated under the laws of the Cayman Islands and is registered under the Cayman Islands Mutual Funds Law. The Fund's investment objective is to provide the investors with maximum appreciation of capital while incurring reasonable risk by investing primarily in a diversified group of investment funds. Over the medium to long term the Fund aims to achieve risk-adjusted returns that are superior to the broad market averages such as the S&P 500 index and the Morgan Stanley Capital International World Index.

The Fund generally invests with fund managers that employ a classic hedge fund approach by taking short positions as well as long positions typically in equity securities and may utilize leverage to magnify the effects of stock selection. The fund managers invest and trade largely in U.S. and equity securities, although these managers may also invest up to 20% of the Fund's assets (measured at cost) in strategies such as distressed debt, capital structure arbitrage and merger arbitrage.

NOTE 6: INVESTMENTS (CONTINUED)

The shares of the Fund are divided into two series', Series A and Series B, and except with respect to new issues, all shareholders participate in all investments of the Fund in the same manner. The only distinction among the series is the incentive fee rate and the redemption rights. The net asset value of the relevant series of shares at any date will be the total net assets within the relevant series, divided by the number of shares within the relevant series then outstanding. Net assets consist of the aggregate amount of cash, securities and other assets held by the Fund, less Fund liabilities. The total net assets at any date is determined on the accrual basis of accounting, utilizing U.S. generally accepted accounting principles or international accounting standards as a guideline. The Fund has retained an administrator to calculate the Fund's net asset value at the end of each month. In connection with the determination of the net asset value, the administrator may consult with or rely on advice from the underlying fund managers. Forester Offshore, Ltd has an aggregate cost and fair value at June 30, 2012 of $1,951,668 and $2,127,086 respectively.

Private equity investments consist of investment in three funds purchased from Goldman Sachs, The Goldman Sachs Vintage Fund III Offshore Holdings, LP, The Goldman Sachs Private Equity Partners 2004 Offshore Holdings, LP, and The Goldman Sachs Equity Partners Asia Offshore Fund, L.P.

The Goldman Sachs Vintage Fund III Offshore Holdings, LP has an aggregate cost and fair value at June 30, 2012 of $755,882 and $802,310, respectively. The Academy has a commitment to purchase a total of $2,000,000 in the Vintage Fund III Offshore Holdings and the first purchase occurred in December 2004.

The Vintage III Funds investment objective is to seek to invest in the secondary market for private equity, primarily through the acquisition, directly or indirectly, of interests in pooled investment vehicles held by existing investors in those vehicles who are seeking liquidity prior to the termination of those vehicles (Secondary Investments), and through investment in investment vehicles that are formed to acquire portfolios of private equity investments held by existing investors in such securities (Synthetic Investments). The Vintage III Funds may also invest in other securities related to the secondary private equity markets (e.g., interests in private equity securitizations and derivatives). The Vintage III Funds will consider investments on a global basis and across all sectors of the private equity market, including, but not limited to, leveraged buyouts, growth capital financings, venture capital, distressed securities, mezzanine financing, and natural resources.

The Goldman Sachs Private Equity Partners 2004 Offshore Holdings, LP has an aggregate cost and fair value at June 30, 2012 of $1,591,512 and $1,597,925, respectively. The Academy has a commitment to purchase a total of $2,000,000 in the Private Equity Partners 2004 Offshore Holdings and the first purchase occurred during 2005.

NOTE 6: INVESTMENTS (CONTINUED)

The Private Equity Partners' investment objective is to realize long-term compounded returns in excess of those returns available through conventional investments in the public equity markets through investments in the private equity markets, through careful construction of a broad and varied private equity portfolio. The Fund may invest in pooled investment vehicles and privately negotiated transactions generally sourced on a co-investment basis both domestically and internationally, across all sectors of the private equity market, such as leveraged buyouts, growth capital financings, venture capital, industry-focused funds and distressed securities. The Fund will target a compounded annual rate of return on Contributed Capital of approximately 15% to 20%, although there is no assurance that the Fund will achieve its investment objectives.

The Goldman Sachs Equity Partners Asia Offshore Fund, L.P. has an aggregate cost and fair value at June 30, 2012 of $900,305 and $856,184, respectively. The Academy has a commitment to purchase a total of $2,000,000 in the Private Equity Partners Asia Offshore Fund and the first purchase occurred in 2007.

The investment objective of the Fund is to achieve long-term compounded returns that fall within the top quartile of those realized by investment managers focused on alternative investments in Asia. The Fund will seek to construct a well-diversified, Asia-focused private equity investment portfolio by making commitments to pooled investment vehicles managed by portfolio managers identified by the Fund.

The portfolio managers of these investments will employ one or more of the following investment strategies: growth capital, buyouts, distressed investing and other strategies (including, but not limited to, real estate private equity, hedge funds and venture capital).

The Fund will seek to construct a well-diversified portfolio of approximately 15 managers or partners focused in opportunities in Asia.

The Academy's real estate component consists of commitments of $2,000,000 each to Madison International Real Estate Liquidity Fund III and Verdis Real Asset Fund, LP.

Madison International Real Estate Liquidity Fund III, (the Partnership) investment objective is to acquire a diversified portfolio of ownership interests such as limited partnership, limited liability company, joint venture and other liquid interests in existing entities owning quality commercial real estate assets at material discount to intrinsic value in secondary transactions with the goal of generating superior risk adjusted returns for the investors. The Partnership may also originate equity investment for existing ownership entities to facilitate the buyout of underlying partners or the monetization of imbedded equity positions, acquire general partnership positions or debt obligations with similar attributes. The Partnership expects to realize current income through operating dividends received from investments.

Madison will prepare quarterly (unaudited) and annual (audited) financial statements under the GAAP method of accounting whereby investments will be carried at fair market value. Because annual appraisals for each investment are frequently unavailable, not cost effective to obtain, and/or may not be reflective of the value of the Partnership's investments, fair value will be determined using a present value methodology derived from the future projected cash flows of each investment.

The Madison International Real Estate Liquidity Fund III has an aggregate cost and fair value at June 30, 2012 of $1,239,079 and $1,459,534, respectively. The Academy has a commitment to purchase a total of $2,000,000 in the Fund and the first purchase occurred during 2007.

NOTE 6: INVESTMENTS (CONTINUED)

Verdis Real Asset Fund LP, a Delaware limited partnership a fund of funds of which Verdis Real Assets Capital, LLC is the General Partner, is designed to provide investors with exposure to private partnerships that invest directly in real estate and natural resources (oil and gas, power, and timber). Real Assets have historically provided attractive returns, portfolio diversification, and protection against unanticipated increases in inflation. The Fund will seek to invest with operationally-oriented, niche managers who have a history of successfully investing in specific market segments. Managers with operational, industry, or local market expertise can better capitalize on market inefficiencies due to their unique abilities, skills and access to deals. The Fund focuses on managers with a value orientation and will avoid managers who seek to profit from momentum investing in favor of managers who have demonstrated ability to perform throughout market cycles. Assets shall be valued on such date or day by the General Partner at fair market value in such a manner as it may be determined in good faith. In valuing property interests, the General Partner may use one or more of the following as determinants of value: valuations provided by portfolio managers, appraisals, lender valuations, agreement of sale, sales of comparable properties, discounted cash flow analysis, and direct capitalization of net operating income. Partners will be provided with audited annual financial statements, and unaudited quarterly reports.

Verdis Real Asset Fund LP has an aggregate cost and fair value at June 30, 2012 of $1,223,370 and $1,310,240, respectively. The Academy has a commitment to purchase a total of $2,000,000 in the Fund and the first purchase occurred in 2007.

Verdis Energy and Resources Partners III, L.P. is a Delaware limited partnership. The Verdis Energy and Resources Partners III, L.P. has an aggregate cost and fair value at June 30, 2012 of $34,939 and $23,165, respectively.

The sole general partner of the Fund is VRAF III GP, LLC, a Delaware limited liability company. The members of the General Partner are Verdis Investment Management, LLC and Brooks A. Blake. The investment adviser of the Fund is Verdis Investment Management, LLC. The principals of the Investment Adviser are its Founder and CEO Jamie Biddle and its Chief Operating and Compliance Officer Steve Kim. The Investment Adviser provides certain investment advisory services pursuant to an investment advisory agreement. The Investment Adviser has full and exclusive discretionary authority and responsibility to manage the day-to-day operations of the Fund and to invest and reinvest its assets, except to the extent that the Fund engages one or more other persons to perform all or any portion of such management duties.

The Fund's investment objective is to achieve attractive returns while also providing diversification through low correlation to financial assets and a partial hedge against unanticipated inflation by investing in underlying private equity funds or accounts which invest across the global energy and natural resources industries. The Fund will have a U.S. focus, but will opportunistically invest with managers making investments in other developed and developing markets.

VERP III invests in private partnerships that invest primarily in energy, including upstream exploration and production of oil and gas, energy infrastructure, oilfields services and power generation, and resources including mining, metals, and minerals. Energy investments are expected to represent 80-100% of the Fund (likely closer to 80%), whereas other natural resources are expected to represent 0-20% of the Fund (likely closer to 20%).

NOTE 6: INVESTMENTS (CONTINUED)

Portfolio investments will be valued at the value of the Portfolio Investments provided to the Partnership by the Portfolio Managers, but will be subject to adjustment by the Management Company if it believes the values provided do not reflect fair value. Any unlisted security will be valued initially at cost and thereafter with any reduction or increase in value in a manner determined by the Management Company to reflect generally the fair value. Securities traded on a stock exchange will be valued generally at the last reported trade quoted on such exchange or, if not available or if not reflective or current market conditions, at the mean between the exchange quoted bid and asked prices or as determined by the Management Company.

Colchester Global Bond Fund is a value-oriented global fixed income fund. The fund is organized as a partnership, structured legally as a Delaware statutory trust. The fund is managed by Colchester Global Investors Limited. With the exception of some forward currency contracts and accruals, all assets owned by the fund are publicly traded debt obligations, by U.S. and foreign governments, their agents and supranationals. Colchester Global Investors Limited does not normally invest in securities without a readily obtainable market value.

Northern Trust acts as the custodian and administrator for the fund. Northern Trust is responsible for independently valuing the fund's assets. The fund is valued on a monthly basis, as of the last business day of each month. Securities which are listed on any generally recognized securities exchange are valued at their closing price as is customarily ascertained by the respective exchange and disseminated by a quotation service or published by recognized newspapers. Forward contracts are valued using market exchange rates and adjusted to reflect the settlement period of the forward contract. Interest and withholding tax accruals are valued at fair market value in accordance with GAAP.

Colchester Global Investors Limited carries its own valuation on the fund as a means to review the Northern Trust valuation. Significant differences in valuation are resolved in accordance with an established procedure prior to releasing the final valuation. Differences can occur on occasion in markets where pricing volatility may exist close to a month end and local market broker sources may provide a consistently different valuation to that quoted more widely. Colchester Global Bond Fund aggregate cost and fair value at June 30, 2012 were $2,611,945 and $2,611,614, respectively.

Mason Capital, Ltd. (the Fund) is an exempted company incorporated under the laws of the Cayman Island. The investment has an aggregate cost and fair value at June 30, 2012 of $1,037,255 and $1,020,606, respectively. The Fund intends to invest substantially all of its capital through a "master feeder" structure (the Master Fund); a Cayman Island exempted limited partnership registered under the Exempted Limited Partnership Law (as revised) of the Cayman Islands, through which the Fund's investment program will be effectuated. It is anticipated that the Fund will be the only "feeder fund" investing through the Master Fund. Mason Capital LLC (the General Partner), a Delaware limited liability company, is the general partner of the Master Fund and is responsible for managing the Master Fund's affairs. The Master Fund's principal investment objective is to achieve attractive capital appreciation over time relatively independent of the returns generated by the overall equity and debt markets. The General Partner will attempt to realize this objective by employing a variety of investment strategies, including, without limitation, employing certain event-driven investment strategies such as merger arbitrage, distressed securities, and special situations. The General Partner may use a variety of financial instruments including, without limitations, securities and derivative securities.

NOTE 6: INVESTMENTS (CONTINUED)

To the extent permissible under applicable laws and regulations, the Master Fund may also employ swaps and futures contracts and similar investments. Leverage may also be used if appropriate.

The Fund's net asset value (NAV) is the fair market value of its assets before giving any effect to payment of any subscription amounts or any redemptions and less all accrued Fund liabilities and expenses. Since the Fund intends to invest substantially all of its capital through the Master Fund any increase or decrease in the NAV of the Fund will be based primarily upon any increase or decrease in the net assets held in the Master Fund. SS&C Technologies Inc. (NAV Calculating Agent) will calculate the Fund's NAV and the NAV of each series of shares on a monthly basis. The NAV per share for any series of shares is the product of the percentage interest of each share in the applicable series and the NAV of that series. The NAV Calculating Agent will also calculate the net asset value of the Master Fund.

Owl Creek Overseas Fund, Ltd. (the Fund) is an exempted company under the laws of the Cayman Islands to operate as a privately offered investment fund. The investment has an aggregate cost and fair value at June 30, 2012 of $826,421 and $826,878, respectively. The Fund invests substantially all of its assets in Owl Creek Overseas Master Fund Ltd (the Master Fund) a Cayman Island exempted company. The investment manager is Owl Creek Advisors, LLC, (the Manager) a limited liability company organized under the laws of the State of Delaware, and has responsibility for overseeing the investment strategy of the Master Fund, subject to the policies and control of the board of directors of the Master Fund. The investment objective of the Fund is to seek above average returns through an opportunistic event-driven value strategy with a focus on capital preservation. The Manager employs a bottom-up analysis, looking across both the debt and equity of a company's capital structure. The Master fund has the ability to invest in both long/short distressed debt and long/short value equity. The conclusions reached from this bottom-up approach are used to purchase or sell short a variety of financial instruments including, but not limited to, listed and unlisted common stocks, preferred stocks, convertible securities, public and private debt issues (including bank loans and trade claims) rights warrants, put and call swaps, forward contracts, when-issued securities and other derivatives, including futures contracts. The Master Fund invests in both U.S. and non U.S. issuers. The Master Fund may acquire or hold assets or securities which the Manager believes either lack a readily assessable market value or should be held until the resolution of a special event or circumstance. The issuer of such an investment may be a private company or, if it is a public company, the securities may have been purchased in a private placement. Such investments are not expected to comprise more than 7.5% of the Master Fund's net assets.

The net asset value (NAV) of the Fund equals its gross assets less its gross liabilities on any valuation date. The NAV of each class and series of shares is determined based upon the net asset value of the corresponding class and series of shares of the Master Fund held by the Fund, adjusted for assets held, or liabilities incurred, directly by the Fund. The NAV per share of a series will be determined by dividing the NAV of such series by the number of outstanding shares. Securities that are listed on a securities exchange will be valued at their last sales prices on the date of determination on the primary securities exchange on which such securities shall have traded on such date (or, in the event that the date of determination is not a date upon which a securities exchange

NOTE 6: INVESTMENTS (CONTINUED)

was open for trading, on the last prior date on which such security exchange was open not more than 10 days prior to the date of determination). Securities that are not listed on an exchange but are traded over-the-counter shall be valued at the average of the representative "bid" quotations and representative "asked" quotations, unless included in the NASDAQ National Market System, in which case they shall be valued based upon their last sales prices (if such prices are available). Options for which the last sales price does not fall between the last "bid" and "asked" prices for such options will be valued at the average of the last "bid" price and the last "asked" price for such options on such date. Securities that are not listed on an exchange, are not traded over-the-counter and for which external pricing sources are not readily available shall be valued by the Manager based on a relative value assessment process that incorporates current market conditions and capital structures of other securities where data is more readily available or other information that the Manager deems appropriate. These types of investments are carried on the books of the Master Fund at fair value until sold or otherwise liquidated or written down.

FLAG Real Estate Partners II L.P, is a Delaware limited partnership (the Partnership) controlled and managed by FLAG Real Estate Company II, LLC (General Partner). The investment has an aggregate cost and fair value at June 30, 2012 of $346,486 and $363,939, respectively. The primary objective is to provide a vehicle for qualified investors to invest in a portfolio of real estate funds based in, or investing in, one or more countries anywhere in the world, by making holdings and disposing of privately negotiated investments in the form of limited partner interests and other equity interests and of securities distributed by entities in which the Partnership has made investments. As a secondary objective, the Partnership may acquire secondary interests from third parties in investment vehicles similar to those described in the preceding sentence and may participate in co-investment opportunities that are offered in connection with the Partnership's portfolio fund investments or otherwise. In addition, the Partnership may otherwise engage in any lawful activity for which limited partnerships may be organized under the laws of the State of Delaware.

FLAG Energy & Resources Partners II L.P, is a Delaware limited partnership (the Partnership) controlled and managed by FLAG Energy & Resources Company II, LLC (General Partner). The investment has an aggregate cost and fair value at June 30, 2012 of $255,180 and $237,361, respectively. The primary objective is to provide a vehicle for qualified investors to invest in a portfolio of private energy, infrastructure and other resources funds based principally in North America, by making, holding and disposing of privately negotiated investments in the form of limited partner interests and other equity interests and of securities distributed by entities in which the Partnership has made investments. As a secondary objective, the Partnership may acquire secondary interests from third parties in investment vehicles similar to those described in the preceding sentence and may participate in co-investment opportunities that are offered in connection with the Partnership's portfolio fund investments or otherwise. In addition, the Partnership may otherwise engage in any lawful activity for which limited partnerships may be organized under the laws of the State of Delaware.

NOTE 6: INVESTMENTS (CONTINUED)

In both the FLAG Real Estate Partners II L.P. and the FLAG Energy & Resources Partners II L.P. the General Partner or such other person appointed or contracted by the General Partner on behalf of the Partnership, shall determine the value of any investment property, asset, liability, distribution, contribution or expense in good faith and in its sole discretion in any manner that is not inconsistent with industry custom based on available information it considers relevant. In determining the value of an investment, the General Partner is entitled to rely upon investment valuations provided by the fund manager, general partner or manager of such investment. Any value denominated other than in U.S. Dollars shall be converted into U.S. Dollars at the rate that the General Partner shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange. The General Partner may adjust the value of any property or investment, if appropriate using currency, applicable rate of interest, maturity, marketability and other considerations the General Partner deems relevant.

ING Global Multi-Strategy Master Qualifying Investor Fund (the "Trust") was established on 24 December 2010 as a unit trust and is authorized and regulated by the Central Bank of Ireland pursuant to the provisions of the Unit Trusts Act, 1990. The Trust is constituted as an umbrella fund insofar as the units of the Trust are divided into different tranches of units representing a separate portfolio of assets, each of which comprises a separate sub-fund of the Trust. At June 30, 2012 one such sub-fund was in existence – ING Mortgage Investment Master Fund (the "Master Fund"). The Master Fund commenced operations on 18 January 2011. The investment had both an aggregate cost and fair market value of $1,000,000 as of June 30, 2012.

The investment objective of the Master Fund is to generate attractive risk adjusted returns. The Master Fund seeks to achieve its investment objective by investing primarily in US residential mortgage-backed securities to generate returns in excess of any financing costs. The Master Fund also seeks to exploit structural market inefficiencies and make short-term relative value trades in such markets. The Master Fund may invest in all forms of US residential mortgage-backed securities, government securities and related derivative instruments, including without limitation, US treasury debt, government sponsored enterprise ("Agency") backed securities and fixed or adjustable rate collateralised mortgage obligations and REMICs. The Master Fund may also enter into repurchase and reverse repurchase agreements and invest and trade in futures contracts, forward contracts, options, swaps, swaptions and other derivative transactions. The Master Fund primarily invests in Agency backed mortgage securities which carry the Agency guarantee of timely payment of principal and interest.

Month end valuations are derived at by the Administrator obtaining valuations for prices from Pricing Direct or Super Derivatives and pricing the portfolio. The priced portfolio is sent to the investment team for review and signoff. If there are no issues approval is given and the final NAVs are calculated and verified by the ING Finance Team. If the investment team disagrees with a security valuation it obtains valuations form the secondary pricing sources laid out in the pricing matrix and submits them to the Administrator for the Administrator's concurrence and the Trustee's approval. The administrator uses "Super Derivatives" as the primary pricing model for interest rate swaps. The valuations are compared to those submitted by the counterparties and a tolerance limit is used to ascertain their reasonableness.

The Trustee, Administrator and the investment manager report to the Board any pricing discrepancies quarterly and how they were resolved. Any issues not resolved are reported to the Board immediately for their intervention.

NOTE 6: INVESTMENTS (CONTINUED)

The following tabulation summarizes the relationship between cost and fair values of investment assets as of June 30, 2012 and for the six month period then ended.

	Cost	Fair Value	Excess of Fair Value Over Cost
Balance at End of Year	$ 44,402,086	$ 46,210,143	$ 1,808,057
Balance at Beginning of Year	45,060,912	46,280,173	1,219,261
Increase in Unrealized Gains for the Year			588,796
Realized Gains for the Year			1,645,957
Increase in Value of Beneficial Interest in Perpetual Trusts			232,379
Investment Income Transferred			(1,124,734)
Net Gain for the Year			$ 1,342,398

NOTE 7: 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 measurements) 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.

NOTE 7: FAIR VALUE MEASUREMENTS (CONTINUED)

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 plan's assets at fair value as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash	$ 150,244	$ -	$ -	$ 150,244
Mutual Funds	20,584,846	-	-	20,584,846
Fixed Income Securities	5,015,557	-	2,611,614	7,627,171
Time Deposits	545,649	-	-	545,649
Alternative Investments		-	17,452,477	17,452,477
Beneficial Interest in Perpetual Trusts	7,334,567	-	-	7,334,567
Total Assets at Fair Value	$ 33,630,863	$ -	$ 20,064,091	$ 53,694,954

The following table sets forth a summary of changes in the fair value of the Academy's level 3 assets for the six months ended June 30, 2012:

	2012
Balance, Beginning of year	$ 19,484,284
Total gain or losses (realized and unrealized)	623,679
Dividends and Interest Income	85,320
Purchases and Sales	(129,192)
Balance, End of year	$ 20,064,091

NOTE 8: 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. All gains and losses along with appropriations for expenditures on the gifts are recorded in the permanently restricted fund. The net accumulations on undesignated, donor restricted endowment gifts are classified as temporarily restricted net assets. All board designated endowment funds are classified as unrestricted net assets.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
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JUNE 30, 2012

NOTE 8: ENDOWMENTS (CONTINUED)

Endowment Net Assets consisted of the following as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Designated Fund	$ 1,482,097	$ -	$ -	$ 1,482,097
Donor Restricted Endowments	-	4,057,082	40,141,509	44,198,591
	$ 1,482,097	$ 4,057,082	$ 40,141,509	$ 45,680,688

The following table sets forth a summary of changes in Endowment Net Assets for the six month period ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 2,761,668	$ 3,857,439	$ 39,175,027	$ 45,794,134
Investment Return:				
Investment Income net of fees	38,054	-	237,404	275,458
Net appreciation (realized and unrealized)	196,934	199,643	1,814,282	2,210,859
Total Investment Return	234,988	199,643	2,051,686	2,486,317
Contributions	-	-	152,200	152,200
Endowment and Board Designated expenditures	(1,514,559)	-	(1,237,404)	(2,751,963)
Transfer to Board Designated Endowment Funds	-	-	-	-
Endowment Net Assets, End of Year	$ 1,482,097	$ 4,057,082	$ 40,141,509	$ 45,680,688

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. A major part of growth should result from the addition of new gifts. The asset allocation of the portfolio is designed to produce at least an 8% return annually.

Due to recent economic conditions, the Academy increased its spending percentage to 7% (from 5.5%) of a four year rolling average for 2011 and a three year rolling average for 2010. The temporary increase is intended to offset decreased contributions from the Commonwealth of Pennsylvania, corporate and individual donors.

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.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 9: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2012:

Buildings	$	19,100,000
Equipment		11,013,463
Vehicles		38,528
		30,151,991
Less: Accumulated Depreciation and Amortization		9,675,091
	$	20,476,900

Depreciation and amortization expenses for the six months ended June 30, 2012 was $628,525.

Depreciation and amortization expenses are recorded in the statement of activities in the amount of $529,479, as these assets were purchased with non-operating revenues. In addition, $99,047 in depreciation and amortization expenses was included as a part of operating expenses.

NOTE 10: COLLECTIONS

The collections, which were acquired through purchases and contributions since the Academy's inception, 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. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

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.

NOTE 11: PENSION PLAN

The Board of Trustees, on September 15, 2009, approved freezing the Academy's Defined Benefit Pension Plan, along with the TIAA-CREF Defined Contribution Plan, effective December 31, 2009. On December 8, 2009 the Board of Trustees unanimously approved a new Defined Contribution 403(b) Retirement Plan for all eligible Academy employees, effective January 1, 2010. The new plan replaces both the defined benefit and TIAA-CREF plans starting January 1, 2010.

The Academy up through December 31, 2009, offered participation in either a defined benefit pension plan or a defined contribution pension plan. These plans cover all full-time employees with a minimum of one year of service. The defined contribution plan is managed and administered by the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). A full-time employee whose immediately preceding employer offered this plan may opt to continue within this plan.

NOTE 11: PENSION PLAN (CONTINUED)

All other full-time employees with a minimum of one year of service are covered by the defined benefit pension plan. Annual pension benefits are based upon a percentage of preretirement compensation. For the defined benefit pension plan, this percentage increases with years of service and the annual payment is adjusted based upon social security benefits. The Academy's funding policy is to contribute annually an amount as required by the Employee Retirement Income Security Act of 1974. For the defined contribution pension plan, contributions are based on a flat eight (8%) percent of annual compensation.

The new defined contribution plan effective January 1, 2010 does not provide for a predefined employer contribution. The Board of Directors may declare an employer contribution at their discretion. For the six months ended June 30, 2012, there were no employer contributions to the defined contribution plan. The Academy did make required contributions to the frozen defined benefit plan in the amounts of $270,647 for 2012.

During 2010 the Academy's actuaries, Towers Perrin merged with Watson Wyatt creating Towers Watson. As a result of the merger a new discount rate modeling tool (Bond:Link) was made available to the former Towers Perrin clients. Up until 2010, the Academy had used the Towers Perrin Rate: Link cash flow model which utilized the average yield between 10th-90th percentiles of bonds rounded to the nearest 10 basis points to determine the discount rate assumption to be used in the pension valuation. The Bond:Link model develops a discount rate by selecting a portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. A single rate is determined that equates the market value of the bonds purchased to the discounted value of the plans benefit payments, rounded to the nearest 5 basis points. The Academy selected to use the Bond:Link tool for the 2010 pension valuation and for future valuations.

NOTE 11: PENSION PLAN (CONTINUED)

The assumptions for the pension liabilities, the Accumulated Benefit Obligation, change in Projected Benefit Obligation, and change in Plan Assets are noted as follows:

Weighted-average assumptions as of June 30, 2012	
Discount rate	4.40%
Expected return on plan assets	6.75%
Rate of compensation increase	N/A
Accumulated Benefit Obligation	
Accumulated Benefit Obligation at June 30, 2012	$ 15,468,162
Change in Projected Benefit Obligation	
Net benefit obligation at January 1, 2012	$ 14,396,798
Service cost	46,000
Interest cost	350,131
Plan participants' contributions	-
Plan amendments	-
Actuarial (gain) loss	938,152
Acquisitions/Divestitures	-
Curtailments	-
Settlements	-
Special termination benefits	-
Gross benefits paid	(262,919)
Net benefit obligation at June 30, 2012	$ 15,468,162

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 11: PENSION PLAN (CONTINUED)

	2012
Change in Plan Assets	
Fair value of plan assets at beginning of year	$ 8,215,332
Actual return on plan assets	421,680
Employer contributions	270,647
Plan participants' contributions	-
Acquisitions/Divestitures	-
401(h) transfer	-
Gross benefits paid	(262,919)
Fair value of plan assets at June 30, 2012	$ 8,644,740
Fair value of assets	8,644,740
Benefit obligation	(15,468,162)
Net amount recognized at June 30, 2012	$ (6,823,422)
Amounts recognized in the statement of financial position consist of:	
Non current asset	$ -
Current liability	-
Non current liability	(6,823,422)
Net amount recognized at June 30, 2012 *	$ (6,823,422)

* These amounts are recognized in the financial statements including the statement of financial position in the Other Liabilities classifications.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 11: PENSION PLAN (CONTINUED)

The components of net periodic benefit cost are noted below:

		2012
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate		5.00%
Expected return on plan assets		7.00%
Rate of compensation increase		N/A
Components of net periodic benefit cost		
Service cost	$	46,000
Interest cost		350,131
Expected return on assets		(288,818)
Amortization of:		
Transition obligation (asset)		-
Prior service cost		-
Actuarial (gain) loss		805,290
Net periodic benefit cost	$	912,603
FAS 88 charges:		
Curtailment charge(credit)		-
Settlement charge(credit)		-
Total net periodic benefit cost	$	912,603

The measurement date used by the Academy is June 30. As of June 30, 2012 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 as of June 30, 2012:

		Projected Benefit Obligation Exceeds Fair Value of Plan Assets
Projected benefit obligation	$	15,468,162
Fair value of plan assets	$	8,644,740

		Accumulated Benefit Obligation Exceeds Fair Value of Plan Assets
Accumulated benefit obligation	$	15,468,162
Fair value of plan assets	$	8,644,740

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 11: PENSION PLAN (CONTINUED)

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

Expected benefit payments	
2013	$ 634,005
2014	678,076
2015	713,083
2016	751,362
2017	816,078
2018-2022	4,751,722

Plan Assets:

The Academy's pension plan weighted-average asset allocations at June 30, 2012 by asset category are as follows:

Asset Category	
Equity Securities	27.6%
Fixed Income Securities	37.4%
Hedge Funds and Alternative Investments	32.5%
Cash	2.5%
Total	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 Academy's investment strategy is based on identifying the appropriate mix of assets that achieve an optimal balance between risk and investment return potential. The strategy focuses on four fundamental decision points:

Overall portfolio risk
Diversification across equity markets
Diversification across fixed income markets
Allocation to hedge funds
Allocation to real estate

Accordingly, the composition of the Academy's plan assets is characterized as a 40%, 33%, 22%, and 5% 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

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 11: PENSION PLAN (CONTINUED)

Academy to invest in a diversified manner with a mix of assets that are set not to be highly correlated. This diversity is designed to reduce the potential of a single security or asset class from having a disproportionate or significant impact on the portfolio.

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 ANS pension plan assets at fair value at June 30, 2012:

2012	Total	Level 1	Level 2	Level 3
Assets at Fair Value:				
Cash Equivalents	$ 207,770	$ 207,770	$ -	$ -
Mutual Funds	5,403,371	5,403,371	-	-
Alternative Investments	3,033,599	-	-	3,033,599
Total Assets at Fair Value	$ 8,644,740	$ 5,611,141	$ -	$ 3,033,599

The following table sets forth a summary of changes in the fair value of ANS plan's Level 3 assets for the six months ended June 30, 2012:

	2012
Assets, beginning of year	$ 3,001,085
Net unrealized gain (loss)	159,295
Transfers In (Out)	(126,781)
Assets, end of year	$ 3,033,599

Effective December 31, 2007, The Academy changed its method of accounting for its defined benefit pension to conform to FASB 958-715. Adoption of this accounting pronouncement required the Academy to establish an asset or liability for the difference in the actuarially determine Pension Plan Liability and the Fair Market Value of Pension Plan Assets. The effect to the Academy's financial statements after application of FASB 958-715 as of June 30, 2012 was an increase in the pension liability of $641,596 and a decrease in unrestricted net assets of $912,603. The unfunded pension liability as of June 30, 2012 was $6,823,422.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 11: PENSION PLAN (CONTINUED)

Cumulative effect of SFAS No. 158 reflected in Unrestricted Net Assets for the following periods:

Years Ended:	
December 31, 2007	$ (953,524)
December 31, 2008	(3,396,711)
December 31, 2009	966,191
December 31, 2010	(16,898)
December 31, 2011	(2,209,116)
Six Month Ended:	
June 30, 2012	(912,603)
	$ (6,522,661)

NOTE 12: CONTRIBUTED SERVICES

During the six months ended June 30, 2012, the Academy received in-kind advertising services valued at $2,940 from various media outlets. This amount is included in Unrestricted Contributions and in Development and External Affairs expenditures. Additionally, a substantial number of unpaid volunteers have made significant contributions of their time to develop the Academy's programs. The value of the contributed time is not reflected in these statements as the services rendered are clerical in nature and do not meet the recognition criteria of FASB ASC 958-205.

NOTE 13: DISCRETIONARY LINE OF CREDIT

The Academy's $2,500,000 line of credit agreement with Citizen's Bank expired on June 30, 2012. The Academy replaced the facility with a new 365-day line of credit with Drexel University. The new unsecured line of credit 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 a nd 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. The 30 day notice period can be mutually waived. 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. There were no advances on the line as of June 30, 2012.

NOTE 14: 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.

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

2013	$	177,320
2014		178,650
2015		179,990
2016		181,340
2017		182,700
Total	$	900,000

The Drexel five-year term loan allows for early retirement of the $1,100,000 term loan with Citizen's Bank. The Academy combined the $900,000 of loan proceeds from Drexel, with $200,000 of Board designated reserves to retire the $1,100,000 of Citizen's Bank debt on February 6, 2012.

NOTE 15: 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 as of June 30, 2012 are as follows:

Operating	
Research Programs	$ 1,416,532
Public Programs	475,833
Other Programs	316,795
	$ 2,209,160

NOTE 16: RESTRICTION ON ASSETS

The restrictions on net assets at June 30, 2012, relate to funds raised prior to June 30, 2012, to be used for research and education programs, and to support non-operating activities such as the expansion of research and museum facilities.

	June 30, 2012
Unrestricted net assets are as follows:	
Capital Expenditures	$ 20,476,900
Board-Designated Funds	(6,823,422)
Pension Reserve	(878,220)
	$ 12,775,258

Temporarily restricted net assets are available for the following purposes:

Support of Designated Programs	$ 6,666,607
Life Income Gifts	202,486
	$ 6,869,093

Permanently restricted net assets are as follows:

Endowment	$ 47,672,615

NOTE 17: ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Financial Accounting Standard's Board (FASB) issued ASC Topic 740-10, Accounting for Uncertainty in Income Taxes. The Interpretation established for all financial enterprises, a requirement for financial statement recognition of any benefits that the enterprise may expect to receive as a result of a position taken with regard to 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, filed form 990T to report 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 Academy also annually reviews the items available for sale in the Academy's gift shop. Although the purpose of each sale is to further the museums exempt purpose, thus excluding it from unrelated income, the Academy has taken a conservative approach, and identifies certain items (i.e. foodstuffs and water) as unrelated business income items and reports the income and associated expense on these items on form 990T.

The Academy's management has not taken an uncertain tax position with regard to income tax that would, in management's opinion, "more likely than not" produce a benefit that would be sustained upon IRS examination, and as such, does not reflect a benefit in the financial statements for an uncertain tax position.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 18: CURRENT MARKET ISSUES

The Academy is highly dependent on contributions and grants. In light of current economic conditions in the United States, unexpected reductions in funding may affect the Academy's operations.

NOTE 19: FINANCIAL STATEMENTS PER AFFILIATION AGREEMENT WITH DREXEL UNIVERSITY

On September 30th, 2011 The Academy of Natural Sciences of Philadelphia executed an Affiliation Agreement with Drexel University, establishing the Academy as a non-profit subsidiary of Drexel. No monetary consideration was exchanged in this transaction. Both the Academy and Drexel retain their separate corporate identities and missions. The Academy remains a separate 501(c)(3) non-profit organization with its own Board of Trustees and retains its corporate name. Drexel becomes the sole voting member of the Academy.

Drexel University assumed responsibility for the fiscal condition of the Academy and the management of its financial resources. The Academy's endowment funds will continue to be used only for the benefit of the Academy and to support its operations, programs and activities and all restrictions on such funds will continue to be honored. The Academy's endowment funds will be invested and managed by the Investment Committee of the Drexel Board of Trustees in a manner that assures the funds can be separately identified and accounted for. The Academy will be converting from a calendar year organization to a July 1 fiscal year organization, beginning July 1, 2012, matching Drexel's fiscal year. The Academy's collections and scientific resources will be preserved and managed in a manner to enhance scientific and reputational value – they are not to be liquidated or sold for budgetary reasons. Care and preservation of the collections and scientific resources will be overseen by the Academy's Board.

The Chair of the Academy's Board of Trustees (who will be an ex-officio member of the Drexel Board and an ex-officio member of the Drexel Executive Committee) shall be a designated a member of the Drexel Investment Committee. If he/she does not want to sit on this Committee, they may select another Academy board member to take their place. Drexel University will designate 5 members of the Academy's Board with full voting rights, 3 of whom will be the Drexel President, ex-officio; Drexel Chief Financial Officer, ex-officio; and the Drexel Provost, ex-officio. The Academy's board is comprised of 26 members (32 maximum). 21 of the members will be the existing members of the Academy's Board prior to the date of the affiliation agreement. The Drexel President shall be on the Academy's Executive Committee. Academy board members (other than Drexel designees) shall be elected for 3 year terms that are staggered. The Drexel Board will have approval and ratification of the Academy's board members.

The current Academy President will remain in place. If the post is open the Academy's President shall be appointed by the Drexel President, subject to the approval of the Academy's Board, and shall report directly to the Drexel President. The Drexel President will have the right to remove the Academy's President, subject to prior notice to and consultation with the Academy's Board.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 19: FINANCIAL STATEMENTS PER AFFILIATION AGREEMENT WITH DREXEL UNIVERSITY (CONTINUED)

Because of the financial responsibility assumed by Drexel with respect to the Academy's operations, Drexel will retain the following powers:

- Approval of any amendments or repeals to the Academy's Articles of Incorporation or bylaws;

- Appointment or removal of Academy board members;

- Approval of any mergers, acquisitions, sales or disposals of assets;

- Creation or acquisition of any subsidiary of Academy;

- Dissolution or liquidation of Academy and its assets.

The Academy's senior officers and key employees will remain in their positions "at-will." Thereafter, such senior officers and key employees will be appointed and removed by the Academy's President with the approval of the Drexel President. The Academy's Chief Financial Officer will dually report to the Academy President and the Drexel Chief Financial Officer. Other senior officers shall report to the Academy's President and will also keep their Drexel counterparts informed.

Drexel shall assume responsibility for the liabilities of the Academy and shall cause sufficient funding to be made available to meet any operating deficits, liquidity needs, and budgeted capital improvements of the Academy that may be incurred after September 30, 2011 (Effective Date). In the event that Academy shall have any operating surpluses after the Effective Date, Drexel will have the responsibility and power to propose and include in any annual budget or capital plan of the Academy an allocation of such surplus for use within the Academy or for reimbursement of Drexel for any amounts previously advanced or paid by Drexel on behalf of the Academy or for use within the Drexel system composed of Drexel and other Drexel affiliated entities; provided however that such allocation shall be consistent with the overall responsibility that Drexel has for the Academy.

Because of the financial responsibility being assumed by Drexel with respect to the Academy's operations, Drexel will retain the following powers:

- Approval of changes to mission of the Academy or to ownership, preservation, and maintenance of its scientific resources;

- Approval of the operating and capital budgets of the Academy;

- Approval of unbudgeted transfers of assets;

- Approval of any unbudgeted single or cumulative incurrence of debt in any 12 month period by the Academy in an amount in excess of 1% of the operational budget.

- Approval of any material activities by the Academy to apply for, modify, or abandon any grant applications or awards.

- Approval of any new affiliations of the Academy.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 19: FINANCIAL STATEMENTS PER AFFILIATION AGREEMENT WITH DREXEL UNIVERSITY (CONTINUED)

To ensure the operations of the Academy and Drexel University are aligned to successfully integrate and combine the two institutions in an efficient and timely manner, and to achieve the respective missions, an Integration Council will be established. The Integration Council will be comprised of the Drexel President, the Academy's President, the Academy's and Drexel's Chief Financial Officers, the Drexel Provost, and others from Drexel and the Academy as the Drexel President sees fit. The Drexel President (or his/her designee) will serve as the Integration Council's chair. The Drexel President may disband the Integration Council at such time as the Drexel President determines that the integration of Academy and Drexel has been successfully implemented. In the public domain, the Academy will be referred to as "The Academy of Natural Sciences of Drexel University" and marketing and branding initiatives will reflect the institutions mutual desire to promote learning and public understanding of, and engagement with, the natural and environmental sciences, and to engage in research, scholarly activities and community initiatives.

The affiliation provides the Academy with additional resources for its scientists and its public museum, including access to laboratories, opportunities for teaching, innovative technology for exhibition, including media arts, design and simulation. Drexel University's faculty and students will have access to the Academy's world-renowned scientific collects and library for their research activities. Scientists from the Academy will join with Drexel faculty and researchers in biodiversity, ecosystem processes, environmental engineering, and conservation biology to create an academic unit uniquely positioned to contribute research and teaching in the natural and environmental sciences.

The financial statements presented in this footnote reflect the activities of the Academy for the period of October 1, 2011 through June 30, 2012 and are intended to provide the necessary financial roll forward information needed by the University to prepare consolidated financial statements.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 19: FINANCIAL STATEMENTS PER AFFILIATION AGREEMENT WITH DREXEL UNIVERSITY (CONTINUED)

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENT OF ACTIVITIES
NINE MONTHS ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Support from Parent	$ 1,232,605	$ -	$ -	$ 1,232,605
Research Programs				
Environmental Group	710,274	653,580	-	1,363,854
Center for Systematic Biology and Evolution	143,046	985,921	-	1,128,967
Other Programs and Grants	244,607	95,467	-	340,074
Endowment Income	1,057,297	362,358	-	1,419,655
Contributions and Bequests (Note 1G)	671,419	(458,983)	885,816	1,098,252
Annual Fund Contributions	1,501,412	-	-	1,501,412
Museum Admissions	780,075	4,512	-	784,587
Public Programs Income	382,512	426,913	-	809,425
Membership Dues	247,365	-	-	247,365
Museum Shop Income	321,065	107	-	321,172
Museum Restaurant	29,386	-	-	29,386
Gain from adjusting Building to Fair Value	5,869,233	-	-	5,869,233
Net Realized/Unrealized Gains (Notes 1C,1F, and 6)	163,010	565,548	2,834,386	3,562,944
Interest Income	156	7,471	-	7,627
Other Income	197,481	68,844	-	180,064
Total Support and Revenues	13,550,943	2,711,738	3,720,202	19,982,883
Net Assets Released From Restriction (Note 15)	3,317,044	(3,317,044)	-	-
Total Support, Revenues and Other Revenues	16,867,987	(605,306)	3,720,202	19,982,883
Expenses				
Environmental Group	1,724,949	-	-	1,724,949
Center for Systematic Biology and Evolution	1,878,791	-	-	1,878,791
Public Programs	2,471,558	-	-	2,471,558
Museum Shop	351,237	-	-	351,237
Museum Restaurant	2,746	-	-	2,746
Library	780,230	-	-	780,230
Administration	1,218,705	-	-	1,218,705
Development and Membership	623,255	-	-	623,255
Communications	453,289	-	-	453,289
Building Operations	1,415,786	-	-	1,415,786
Computer Services	251,846	-	-	251,846
Depreciation and Amortization	813,245	-	-	813,245
Capital Projects Expense	13,701	-	-	13,701
Other Expense	367,724	-	-	367,724
Total Expenses	12,367,062	-	-	12,367,062
Increase (Decrease) in Net Assets before cumulative effect of change in Accounting Principle	4,500,925	(605,306)	3,720,202	7,615,821
Cumulative effect of change in Accounting Principle				
Pension related changes other than net periodic pension cost	(944,225)	-	-	(944,225)
Changes in Net Assets	3,556,700	(605,306)	3,720,202	6,671,596
Net Assets, Beginning of Period	9,218,558	7,474,399	43,952,413	60,645,370
Net Assets, End of Year	$ 12,775,258	$ 6,869,093	$ 47,672,615	$ 67,316,966

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 19: FINANCIAL STATEMENTS PER AFFILIATION AGREEMENT WITH DREXEL UNIVERSITY (CONTINUED)

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JUNE 30, 2012

Cash Flows From Operating and Nonoperating Activities	
Increase in Net Assets	$ 6,671,596
Adjustment to Reconcile Increase (Decrease) in Net Assets to Net Cash Used in Operating and Nonoperating Activities:	
Depreciation and Amortization	966,582
Realized and Unrealized Gains	(4,306,966)
Gain from Adjusting Building to Fair Value	(5,869,233)
Change in Value of Perpetual Trusts	(444,519)
Contributions Unrestricted by Perpetual Trusts Held by Third Parties	(140,376)
Contributions Temporarily Restricted by Perpetual Trusts Held by Third Parties	(71,600)
Contributions Restricted for Endowment	(889,277)
(Increase) Decrease in Operating Assets	
Accounts Receivable	(884,066)
Grants Receivable	133,584
Other Assets	13,352
Unconditional Promises to Give	225,247
Increase (Decrease) in Operating Liabilities	
Accounts Payable and Accrued Expenses	(278,270)
Contracts and Other Exchange Transactions	162,784
Other Liabilities	1,066,274
Net Cash Used in Operating and Nonoperating Activities	(3,644,888)
Cash Flows From Investing Activities	
Proceeds From Sale of Investments	791,628
Purchase of Investments	(720,594)
Capital Disposal	18,687
Capital Expenditures	(881,439)
Net Cash Used In Investing Activities	(791,718)
Cash Flows From Financing Activities	
Net Repayments on Long-term Debt	(200,000)
Proceeds From Contributions Restricted for Endowment	889,277
Net Cash Provided by Financing Activities	689,277
Net Decrease in Cash	(3,747,329)
Cash - Beginning of Period	3,897,573
Cash - End of Period	$ 150,244
Supplemental Disclosure of Cash Flow Information:	
Cash Paid During the Period for:	
Interest, Net of Amounts Capitalized	$ 13,701

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 20: RELATED PARTY TRANSACTIONS

Per an affiliation agreement dated September 2011, the Academy of Natural Sciences is a subsidiary of Drexel University. During the 2011 year, Drexel provided $350,000 of funding to the Academy for their bicentennial celebration. A total of $157,395 was deferred as of June 30, 2012 and is classified in other liabilities on the balance sheet. In addition to the bicentennial support Drexel University provided $1,040,000 of operating support during the stub year. The operating support, along with the non deferred portion of the bicentennial support, are reflected on the Statement of Activities under the Support from Parent line.

In addition to the support provided directly by Drexel University to the Academy, the Academy engaged Drexel University services and paid for the services received.

For the period October 1, 2011 to June 30, 2012 the Academy paid the university $89,023. The expenses are as follows:

Development & Membership	$ 56,466
Other Expenses	7,991
Environmental Group	7,000
Administration	6,178
Public Programs	4,679
Building	3,135
Communications	2,125
Center for Systematic Biology & Evolution	1,449
	$ 89,023

NOTE 21: SUBSEQUENT EVENTS

In May of 2012 the Academy issued a Request for Proposal (RFP) to explore outsourcing the management of its gift shop. Event Network (EN) was identified as the best fit for the Academy. As part of the contract negotiations EN performed a physical inventory of the Academy's current gift shop merchandise and identified items that EN would purchase from the Academy. The remaining or rejected merchandise would not be purchased and would not be part of the EN inventory. Although the actual contract for EN was not executed until September, the rejected or impaired inventory was identified early in the process. The Academy has taken a conservation position and reduced shop inventory for the items rejected by EN in the June 30, 2012 financial statements. If the Academy had waited until September to record the impairment, Other Assets in the Statement of Financial Position would have been $63,721 higher and the Gift Shop expenditures in the Statement of Activities would have been reduced by the same amount.

Subsequent events for the Academy of Natural Sciences of Drexel University have been evaluated through the report issue date, October 10, 2012. The financial statements for the Academy as of June 30, 2012 were available to be issued as of October 10, 2012

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE SIX MONTHS ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Grantor's Number	Federal Expenditures
Research and Development – Cluster:			
U.S Department of Agriculture			
Watershed restoration and Enhancement Agreement Authority	10.693		$ 17,937
Total U.S. Department of Agriculture			17,937
U.S. Environmental Protection Agency			
Nonpoint Source Implementation Guide	66.460		18,385
Regional Wetland Program Development Grants	66.461		21,796
Research/Training/Fellowships	66.511		36
Performance Partnership Grants	66.605		10,095
Total U.S. Environmental Protection Agency			50,312
U.S. National Science Foundation			
Biological Sciences	47.074		158,978
Geosciences	47.050		72,743
Education and Human Resources	47.076		43,732
International Science and Engineering	47.079		5,931
Trans-NSF Recovery Act Research Support - ARRA	47.082		158,360
Total U.S. National Science Foundation			439,744
U.S. Army Corp of Engineers			
Planning Assistance to States	12.110		20,431
Total U.S. Army Corp of Engineers			20,431
National Institute of Health			
International Research and Research Training	93.989		21,708
Total National Institute of Health			21,708
U.S. Department of the Interior			
Wildlife Restoration	15.611		220
U.S. Geological Survey-Research and Data Collection	15.808		118,150
National Park Service	N/A		20,161
Fish and Wildlife Management Assistance	15.608		6,666
Total U.S. Department of the Interior			145,197
Office of Personnel Management			
Intergovernmental Personnel Act (IPA)	27.011		39,590
Total Office of Personnel Management			39,590
Institute of Museum and Library Services			
Museums of America	45.301		32,896
Total Institute of Museum and Library Services			32,896
U.S Department of Commerce			
Sea Grant Support	11.417		20,485
Coastal Zone Management Administration Awards	11.419		6,363
Total U.S. Department of Commerce			26,848
Total Expenditures of Federal Awards/Total Research and Development Cluster			$ 794,663

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SIX MONTHS ENDED JUNE 30, 2012

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2: SUBRECIPIENTS

Of the federal expenditures presented in the schedule, THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA provided federal awards to subrecipients as follows:

Agency	CFDA #	Amount Provided to Subrecipients
U.S. National Science Foundation	47.074	$ 2,474
U.S. National Science Foundation	47.082	125,213

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of The Academy of Natural Sciences of Philadelphia as of and for the six months ended June 30, 2012 and have issued our report thereon dated October 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Academy of Natural Sciences of Philadelphia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Academy of Natural Sciences of Philadelphia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Academy of Natural Sciences of Philadelphia's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Zelenkofske Axelrod LLC

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Academy of Natural Sciences of Philadelphia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Jamison, Pennsylvania
October 10, 2012

Zelenkofske Axelrod LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of The Academy of Natural Sciences of Philadelphia with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are have a direct and material effect on its major federal program for the six months ended June 30, 2012. The Academy of Natural Sciences of Philadelphia's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Academy of Natural Sciences of Philadelphia's management. Our responsibility is to express an opinion on The Academy of Natural Sciences of Philadelphia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations.*" Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Academy of Natural Sciences of Philadelphia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Academy of Natural Sciences of Philadelphia's compliance with those requirements.

In our opinion, The Academy of Natural Sciences of Philadelphia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the six months ended June 30, 2012.

Harrisburg	Lehigh Valley	Philadelphia	Pittsburgh
830 Sir Thomas Court, Suite 100	1101 West Hamilton Street	2370 York Road, Suite A-5	3800 McKnight E. Drive, Suite 3805
Harrisburg, PA 17109	Allentown, PA 18101-1043	Jamison, PA 18929	Pittsburgh, PA 15237
717.561.9200 Fax 717.561.9202	610.871.5077 Fax 717.561.9202	215.918.2277 Fax 215.918.2302	412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

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

Internal Control Over Compliance

The management of The Academy of Natural Sciences of Philadelphia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Academy of Natural Sciences of Philadelphia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Academy of Natural Sciences of Philadelphia's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Jamison, Pennsylvania
October 10, 2012

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE SIX MONTHS ENDED JUNE 30, 2012

I. Summary of Auditors' Results

Financial Statements

Type of Auditors' Report Issued: Unqualified

Internal Control Over Financial Reporting:

Material Weakness Identified? No

Significant Deficiency identified not considered to be a material weakness? No

Federal Awards

Internal Control Over Major Programs:

Material Weakness Identified? No

Significant Deficiency identified that are not considered to be material weaknesses? No

Type of Auditors' Report Issued on Compliance for Major Programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program
Various	Research and Development Cluster

Dollar threshold used to distinguish Type A and Type B programs: $300,000

Auditee qualified as a low-risk auditee? Yes

II. Financial Statement Findings:

No matters were reported.

III. Federal Award Findings and Questioned Costs:

No matters were reported.

No findings were reported in prior year.