The Academy of Natural Sciences of Philadelphia

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

Financial Statements

June 30, 2018 and 2017

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Report of Independent Auditors

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

We have audited the accompanying financial statements of The Academy of Natural Sciences of Philadelphia (a Pennsylvania not-for-profit corporation dba The Academy of Natural Sciences of Drexel University), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Academy of Natural Sciences of Philadelphia as of June 30, 2018 and 2017, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 24, 2018

The Academy of Natural Sciences of Philadelphia
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents		
Operating	$ 8,147,374	$ 9,484,231
Restricted	-	32,100
Grants and other receivables, net	5,484,897	2,408,229
Contributions receivables, net	2,314,451	3,338,565
Investments	62,135,270	60,259,532
Beneficial interest in trusts	9,204,401	9,271,453
Buildings and equipment, net	18,967,647	19,324,410
Other assets	259,864	204,763
Total assets	$ 106,513,904	$ 104,323,283
Liabilities		
Accounts payable	$ 628,704	$ 962,626
Accrued expenses	4,241,903	770,460
Deferred revenue	5,476,037	7,382,696
Post-retirement and pension benefits	8,979,931	9,333,310
Other liabilities/due to Drexel University	1,725,718	1,713,611
Total liabilities	21,052,293	20,162,703
Net assets		
Unrestricted	5,121,962	6,522,270
Temporarily restricted	14,723,811	13,245,928
Permanently restricted	65,615,838	64,392,382
Total net assets	85,461,611	84,160,580
Total liabilities and net assets	$ 106,513,904	$ 104,323,283

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating support and revenue				
Support from Drexel University	$ 3,872,055	$ -	$ -	$ 3,872,055
Research programs				
Environmental Group	6,704,461	20,880	-	6,725,341
Center for Systematic Biology and Evolution	469,201	39,450	-	508,651
Other programs and grants	63,797	83	-	63,880
Endowment payout under spending formula	530,424	2,459,464	-	2,989,888
Contributions and bequests	1,225,226	2,266,922	-	3,492,148
Museum admissions	1,136,396	-	-	1,136,396
Public programs income	1,205,489	-	-	1,205,489
Membership dues	567,662	-	-	567,662
Museum shop income	65,114	-	-	65,114
Interest income	7,663	-	-	7,663
Other income	1,155,095	-	-	1,155,095
Total support and revenue	17,002,583	4,786,799	-	21,789,382
Net assets released from restriction	3,542,911	(3,542,911)	-	-
Total operating support and revenue	20,545,494	1,243,888	-	21,789,382
Operating expense				
Services provided by Drexel University	1,635,086	-	-	1,635,086
Research programs				
Environmental Group	7,226,185	-	-	7,226,185
Center for Systematic Biology and Evolution	1,986,540	-	-	1,986,540
Public programs	3,756,902	-	-	3,756,902
Library	515,953	-	-	515,953
Administration	1,326,221	-	-	1,326,221
Development and membership	1,016,026	-	-	1,016,026
Marketing and communications	1,081,729	-	-	1,081,729
Building operations	1,839,808	-	-	1,839,808
Technology services	348,166	-	-	348,166
Depreciation and amortization	1,142,831	-	-	1,142,831
Interest expense	-	-	-	
Total operating expense	21,875,447	-	-	21,875,447
Change in net assets from operating activities	(1,329,953)	1,243,888	-	(86,065)
Non-operating activity				
Endowment and other gifts	-	-	239,503	239,503
Realized/unrealized net gain on investments, net of endowment payout	285,381	233,995	983,953	1,503,329
Expenses related to frozen defined benefit pension plan	(340,866)	-	-	(340,866)
Other non-operating expenses	(14,870)	-	-	(14,870)
Change in net assets from non-operating activities	(70,355)	233,995	1,223,456	1,387,096
Change in net assets	(1,400,308)	1,477,883	1,223,456	1,301,031
Net assets				
Beginning of year	6,522,270	13,245,928	64,392,382	84,160,580
End of year	$ 5,121,962	$ 14,723,811	$ 65,615,838	$ 85,461,611

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

The Academy of Natural Sciences of Philadelphia
Statement of Activities
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating support and revenue				
Support from Drexel University	$ 4,517,242	$ -	$ -	$ 4,517,242
Research programs				
Environmental Group	2,752,474	-	-	2,752,474
Center for Systematic Biology and Evolution	639,152	-	-	639,152
Other programs and grants	65,171	1,062	-	66,233
Endowment payout under spending formula	517,507	2,481,493	-	2,999,000
Contributions and bequests	1,206,304	3,362,056	-	4,568,360
Museum admissions	1,408,820	-	-	1,408,820
Public programs income	1,204,104	-	-	1,204,104
Membership dues	499,018	-	-	499,018
Museum shop income	72,164	-	-	72,164
Interest income	7,963	-	-	7,963
Other income	689,583	-	-	689,583
Total support and revenue	13,579,502	5,844,611	-	19,424,113
Net assets released from restriction	3,797,927	(3,797,927)	-	-
Total operating support and revenue	17,377,429	2,046,684	-	19,424,113
Operating expense				
Services provided by Drexel University	2,236,898	-	-	2,236,898
Research programs				
Environmental Group	3,215,474	-	-	3,215,474
Center for Systematic Biology and Evolution	2,133,680	-	-	2,133,680
Public programs	3,511,629	-	-	3,511,629
Library	518,032	-	-	518,032
Administration	1,521,505	-	-	1,521,505
Development and membership	963,632	-	-	963,632
Marketing and communications	995,567	-	-	995,567
Building operations	1,763,488	-	-	1,763,488
Technology services	302,753	-	-	302,753
Depreciation and amortization	1,134,944	-	-	1,134,944
Interest expense	4,956	-	-	4,956
Total operating expense	18,302,558	-	-	18,302,558
Change in net assets from operating activities	(925,129)	2,046,684	-	1,121,555
Non-operating activity				
Endowment and other gifts	-	-	715,246	715,246
Realized/unrealized net gain on investments, net of endowment payout	1,066,855	633,070	2,757,331	4,457,256
Expenses related to frozen defined benefit pension plan	(904,208)	-	-	(904,208)
Loss on disposal of assets	(6,122)	-	-	(6,122)
Change in net assets from non-operating activities	156,525	633,070	3,472,577	4,262,172
Change in net assets	(768,604)	2,679,754	3,472,577	5,383,727
Net assets				
Beginning of year	7,290,874	10,566,174	60,919,805	78,776,853
End of year	$ 6,522,270	$ 13,245,928	$ 64,392,382	$ 84,160,580

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

The Academy of Natural Sciences of Philadelphia
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flow from operating activities		
Increase in net assets	$ 1,301,031	$ 5,383,727
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,142,831	1,134,944
Loss on disposal of equipment	6,580	6,122
Change in market value in beneficial interests in trusts	67,052	(430,585)
Contributions restricted for long-term investment	(149,461)	(1,015,246)
Non-cash contributions received	(588,438)	(329,443)
Proceeds from sales of donated securities	586,096	327,669
Actuarial change on annuity liabilities	(1,043)	10,213
Realized/unrealized (gain) on investments	(4,822,139)	(6,992,375)
Changes in operating assets and liabilities		
Grants and other receivable	(3,076,668)	931,228
Contributions receivable	874,072	(151,438)
Other assets	(55,101)	(38,205)
Accounts payable and accrued expenses	3,142,456	399,151
Post-retirement and pension benefits	(353,379)	72,253
Deferred revenue	(1,906,659)	2,225,828
Other liabilities	12,107	1,709,174
Net cash (used in) / provided by operating activities	(3,820,663)	3,243,017
Cash flow from investing activities		
Purchase of investments	(23,762,610)	(20,938,598)
Proceeds from sales and maturities of investments	26,711,498	23,158,319
Purchase of buildings and equipment	(792,648)	(504,942)
Net cash provided by investing activities	2,156,240	1,714,779
Cash flow from financing activities		
Contributions restricted for endowments	149,461	1,015,246
Proceeds from sales of donated securities	149,895	-
Payments on annuity obligations	(3,890)	(35,115)
Repayment of short-term debt to Drexel University	-	(1,442,681)
Repayment of long-term debt to Drexel University	-	(182,700)
Net cash (used in) / provided by financing activities	295,466	(645,250)
Net (increase) decrease in cash, cash equivalents, and restricted cash	(1,368,957)	4,312,546
Cash, cash equivalents, and restricted cash		
Beginning of year	9,516,331	5,203,785
End of year	$ 8,147,374	$ 9,516,331
Supplemental information		
Donated securities	$ 738,480	$ 329,443
Cash paid for interest	-	4,956

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

1. Nature of Organization and Summary of Significant Accounting Policies

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

Basis of Accounting and Financial Statement Presentation
The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. All revenues received, and expenditures paid prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected as deferred revenues and other assets, respectively.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into the categories as shown below.

Permanently Restricted
Net assets explicitly required by a donor to be maintained permanently by the Academy. Generally, the donors of these assets permit the Academy to use all or part of the income earned on these assets. Such assets are included in the Academy's permanent endowment funds.

Temporarily Restricted
Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Academy in accordance with those stipulations or by the passage of time. Contributions with donor-imposed restrictions are reported as temporarily restricted and are reclassified to unrestricted net assets when the donor-imposed restrictions have been met.

Unrestricted
Net assets not subject to donor-imposed stipulations that may be designated for specific purposes by action of the Board of Trustees. Expenses are shown as decreases in unrestricted net assets. Expirations of donor-imposed stipulations are reported as net assets released from restrictions. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

Cash, Cash Equivalents, and Restricted Cash
Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2018 and 2017, the Academy had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes the credit risks related to these deposits to be minimal. Cash and cash equivalents are carried at cost, which approximates fair value. Included in cash and cash equivalent are amounts which are considered restricted as they reflect gifts in transit to the endowment.

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Contributions Receivable

Contributions and unconditional pledges are recorded at the present value of their expected future cash flows. Unconditional pledges that are expected to be collected within one year are recorded at their estimated net realizable value. Conditional pledges are not included as revenue until the conditions are substantially met. Contributions are reported as an increase in the appropriate net asset category.

Beneficial Interests in Trusts

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

Fair Value of Financial Instruments

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

Functional 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, direct costs incurred have been allocated among the programs and supporting services benefited based on management estimates.

Fundraising

Fundraising costs were $714,818 and $714,927 in 2018 and 2017, respectively.

Contributions

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

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

Use of Estimates

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

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

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

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

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 740-10, *Accounting for Uncertainty in Income Taxes,* which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. The Academy does not believe there are any uncertain tax positions that would require recognition in the financial statements as of June 30, 2018 and 2017.

Recently Adopted Accounting Pronouncements
In January 1, 2018, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*, which requires an entity to show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Academy has adopted ASU No. 2016-18 by applying a retrospective transition method which requires a restatement of the Consolidated Statement of Cash Flows for all periods presented.

Recently Issued Accounting Pronouncements
In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606). The core principle of ASU No. 2015-14 is that revenue be recognized in manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be compensated in exchange for those goods or services. The guidance is effective for annual fiscal periods beginning after December 15, 2017. The standard permits the use of either retrospective or cumulative effect transition method. The Academy has assessed the standard and determined that the impact on its financial statements will be immaterial. The Academy is planning to apply this standard on a retrospective basis.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is meant to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for annual fiscal periods beginning after December 15, 2019. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU No. 2016-14 is meant to reduce the complexity of and add clarity to net asset reporting, add additional disclosure regarding nature of self-imposed limits on unrestricted net assets and donor restricted net assets, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. The Academy is positioned to implement this standard for its fiscal year beginning July 1, 2018 and is developing the additional disclosures and formatting required to conform with the standard.

In August 2016, the FASB issued ASU No. 2016-15, *Statements of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 aims to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU No. 2016-15 if effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if the retrospective application would be impracticable. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)*: ASU No. 2017-07 requires the service cost component of net periodic pension cost and net periodic postretirement benefit cost to be presented as part of fringe benefit expense in the statement of activities. The other components of net periodic benefit cost will be reported as non-operating activity in the consolidated statement of activities. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is meant to provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. ASU no. 2017-08 is effective for annual periods beginning after June 15, 2018, with early adoption permitted. Entities can apply the guidance on a modified prospective basis or retrospective basis. The Academy is currently evaluating the standard to determine the impact it will have on its financial statements.

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

2. Grants Receivable

Grants receivable represents invoices billed to grantor for services provided under the terms of the grant agreements which have not yet been collected as of June 30, 2018 and 2017. Grant receivables are written off against the allowance for doubtful accounts when they are determined to be uncollectible based upon management's assessment. The allowance for doubtful accounts is estimated based on the Academy's historical losses and periodic review of the accounts.

	2018	2017
Grants and other receivables	$ 5,532,412	$ 2,455,744
Allowance for doubtful accounts	(47,515)	(47,515)
Total grant and other receivables, net	$ 5,484,897	$ 2,408,229

3. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable with a payment more than a year from the pledge date are recorded net of a discount using rates as of June 30, 2018 and June 30, 2017 that range between 2.52% to 2.85% and 0.07% to 1.49%, respectively.

Conditional promises to give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. The Academy had no conditional promises to give for the years ended June 30, 2018 and 2017.

Net contributions receivable at June 30 were as follows:

	2018	2017
Amounts due in		
Less than one year	$ 955,888	$ 100,419
One year to five years	1,486,906	3,390,106
Greater than five years	-	40,000
Gross contributions receivables	2,442,794	3,530,525
Less: Discount to present value	(128,343)	(191,960)
Total contributions receivables, net	$ 2,314,451	$ 3,338,565

The following table summarizes the change in net contributions receivable as of June 30:

	2018	2017
Net contribution receivable at beginning of year	$ 3,338,565	$ 3,187,127
New pledges	1,082,295	2,557,100
Collections and adjustments	(2,170,026)	(2,298,891)
Net decrease in present value discounts	63,617	(106,771)
Net contributions receivable at end of year	$ 2,314,451	$ 3,338,565

4. Investments and Investment Return

At June 30, 2018 and 2017, the fair value of investments included the following:

	Fair Value 2018	Fair Value 2017
Money market funds	$ 3,820,252	$ 3,807,375
U.S. Equity	15,657,151	16,868,435
Global Equity	12,221,617	17,664,101
Fixed Income securities and bond funds	10,097,196	4,472,779
Real estate and real assets funds	9,526,036	7,168,832
Hedge funds	2,323,942	4,620,556
Private Equity	8,489,076	5,657,454
Total endowment investments	62,135,270	60,259,532
Beneficial interest in trusts	9,204,401	9,271,453
Total investments	$ 71,339,671	$ 69,530,985

The following summarizes the Academy's total investment return and its classification in the financial statements for the year ended June 30, 2018 and 2017:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income, net of expenses	$ 6,958	$ 64,357	$ 378,567	$ 449,882
Realized/unrealized gain	808,847	2,629,102	605,386	4,043,335
Endowment payout under special formula	(530,424)	(2,459,464)	-	(2,989,888)
Realized/Unrealized net gain on investments, net of endowment payout	285,381	233,995	983,953	1,503,329
Operating investment income	7,663	-	-	7,663
Total return on investments	$ 293,044	$ 233,995	$ 983,953	$ 1,510,992

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income, net of expenses	$ 7,798	$ 75,054	$ 422,467	$ 505,319
Realized/unrealized gain	1,576,564	3,039,509	2,334,864	6,950,937
Endowment payout under special formula	(517,507)	(2,481,493)	-	(2,999,000)
Realized/Unrealized net gain on investments, net of endowment payout	1,066,855	633,070	2,757,331	4,457,256
Operating investment income	7,963	-	-	7,963
Total return on investments	$ 1,074,818	$ 633,070	$ 2,757,331	$ 4,465,219

5. Fair Value of Financial Instruments

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

The Academy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. When available, fair value is based on actively-quoted market prices. In the absence of actively-quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases, prices are estimated based on available historical financial data or comparable investment vehicles that reflect widely accepted market valuation practices.

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

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

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

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

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

5. Fair Value of Financial Instruments (Continued)

As of June 30, 2018 and 2017, assets and liabilities at fair value were as follows:

2018

	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets at Fair Value:					
Beneficial interest in trusts	$ -	$ -	$ 9,204,401	$ -	$ 9,204,401
Investments:					
Money market funds	3,820,254	-	-	-	3,820,252
U.S. Equity	15,657,151	-	-	-	15,657,151
Global Equity	10,518,016	-	-	1,703,601	12,221,617
Fixed Income securities and bond funds	6,004,926	-	-	4,092,270	10,097,196
Real estate and real assets funds	-	-	-	9,526,036	9,526,036
Hedge funds	-	-	-	2,323,942	2,323,942
Private Equity	-	-	-	8,489,076	8,489,076
Total investments	36,000,347	-	-	26,134,925	62,135,270
Total assets at fair value	$ 36,000,347	$ -	$ 9,204,401	$ 26,134,925	$ 71,339,671
Liabilities					
Split-interest agreements	-	-	239,405	-	239,405
Annuities	-	-	35,120	-	35,120
Total liabilities at fair value	$ -	$ -	$ 274,525	$ -	$ 274,525

2017

	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets at Fair Value:					
Beneficial interest in trusts	$ -	$ -	$ 9,271,453	$ -	$ 9,271,453
Investments:					
Money market funds	3,807,375	-	-	-	3,807,375
U.S. Equity	16,868,435	-	-	-	16,868,435
Global Equity	12,420,688	-	-	5,243,413	17,664,101
Fixed Income securities and bond funds	2,332,571	-	-	2,140,208	4,472,779
Real estate and real assets funds	-	-	-	7,168,832	7,168,832
Hedge funds	-	-		4,620,556	4,620,556
Private Equity	-	-	-	5,657,454	5,657,454
Total investments	35,429,069	-	-	24,830,463	60,259,532
Total assets at fair value	$ 35,429,069	$ -	$ 9,271,453	$ 24,830,463	$ 69,530,985
Liabilities					
Split-interest agreements	-	-	238,684	-	238,684
Annuities	-	-	36,884	-	36,884
Total liabilities at fair value	$ -	$ -	$ 275,568	$ -	$ 275,568

5. Fair Value of Financial Instruments (Continued)

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

	June 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
Multi-Strategy Hedge Funds (a)	$ 20,149	$ -	Annual	45-60 days
Fixed Income and Related Hedge Funds (b)	2,303,793	-	Quarterly	45 days
Private Capital Funds-Secondaries (c)	920,987	365,721		
Private Capital Funds-Buy-out (d)	4,231,725	6,013,178		
Real Asset Funds (e)	2,656,296	4,683,264		
Real Estate Funds (f)	680,068	1,815,159		
Global Equity (g)	1,703,601	-		
Fixed Income Securities and Bond Funds (g)	4,092,270	-		
Real Estate and Real Asset Funds (g)	9,526,036	-		
	$ 26,134,925	$ 12,877,322		

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2018, the composite portfolio includes 100% in private equity investments which can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets in the portfolio. It is estimated that the underlying assets would be liquidated over the next 1 to 3 years. The fair values of the investments have been estimated using the net asset value per share of the hedge fund.

b. This category includes investment in hedge funds that invest in: U.S. mortgage backed securities. The fair values of the investments have been estimated using the net asset value per share of the hedge fund.

c. This category includes investments in private equity funds that invest in the private equity secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 100% of the underlying assets will be liquidated over 1 to 4 years. The fair value has been estimated using the net asset value per share of the private capital fund.

d. This category includes investments in private equity funds that invest in buy-outs. A buy-out is a purchase of a company or a controlling interest of a corporation's shares or product line or some business. These investments are primarily broadly diversified across asset classes, and are primarily in the U.S. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 18% of the underlying assets will be liquidated over 1 to 4 years, 34% over 5 to 7 years, and 48% over 8 to 10 years. The fair value has been estimated using the net asset value per share of the private capital fund.

5. Fair Value of Financial Instruments (Continued)

e. This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 58% of the underlying assets of the fund will be liquidated over 1 to 4 years, 20% in 5 to 7 years, and 22% in 8 to 10 years. The fair value has been estimated using the net asset value per share of the real asset fund.

f. This category includes investments in private equity funds that invest in U.S. commercial real estate, and a broad range of mortgage-related investments. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that 61% of the underlying assets of the fund will be liquidated over approximately 1 to 4 years and 39% over 8 to 10 years. The fair value has been estimated using the net asset value per share of the real estate fund.

g. This category includes investments in global equity, fixed income securities and bond funds, and real estate and real asset funds. Investments in this category reflect the fair value of the specific assets or the underlying ventures' net assets. The valuations of these investments are the net asset values prepared by fund managers. Majority of these investments are commingled funds.

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

(in thousands)	**2018**	**2017**
Assets at beginning of year	$ 9,271,453	$ 8,840,868
Net realized/unrealized gains	192,897	628,008
Sales of investments	(259,949)	(197,423)
Assets at end of year	$ 9,204,401	$ 9,271,453

(in thousands)	**2018**	**2017**
Liabilities at beginning of year	$ 275,568	$ 285,781
Change in annuities and split-interest liabilities	(1,043)	(10,213)
Liabilities at end of year	$ 274,525	$ 275,568

6. Endowment Funds

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

To satisfy its rate-of-return objectives, the Academy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Endowment assets are invested in several asset classes and subclasses thereof to moderate the volatility of the returns for the entire portfolio.

For the years ended June 30, 2018 and 2017, the Academy had an endowment spending rule that limited the spending of endowment resources to 5.5% and 6.5%, respectively, of the average fair value of the pooled endowment portfolio for the prior seven fiscal years. This rule was applied except in cases where the spending rate had been stipulated by the donor (typically 5.0%).

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

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

Interpretation of Relevant Law

The Board of Trustees has interpreted Pennsylvania Act 141 ("PA Act 141") as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. As a result of this interpretation, the Academy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) earnings of the endowment made in accordance with the direction of the applicable donor designation. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by PA Act 141.

6. Endowment Funds (Continued)

Endowment composition by type of fund as of June 30, 2018 and 2017 was as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (605,155)	$ 4,651,040	$ 56,650,841	$ 60,696,726
Board-designated endowment funds	1,501,563	-	-	1,501,563
Total assets	$ 896,408	$ 4,651,040	$ 56,650,841	$ 62,198,289

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (154,645)	$ 4,410,110	$ 54,812,939	$ 59,068,404
Board-designated endowment funds	673,031	-	-	673,031
Total assets	$ 518,386	$ 4,410,110	$ 54,812,939	$ 59,741,435

6. Endowment Funds (Continued)

Changes in the Academy's endowment assets (excluding annuities and trusts) for the years ended June 30, 2018 and 2017 were as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at beginning of year	$ 518,386	$ 4,410,110	$ 54,812,939	$ 59,741,435
Endowment return:				
Investment income, net of fees	6,958	64,357	378,567	449,882
Net realized/unrealized gain	63,146	612,191	3,435,669	4,111,006
Reclassification for funds with deficiencies	261,250	-	(261,250)	-
Total endowment return	331,354	676,548	3,552,986	4,560,888
Contributions	-	-	239,503	239,503
Use of endowment assets:				
Endowment payout used in operations	(45,973)	(442,553)	(2,501,362)	(2,989,888)
Other	92,641	6,935	546,775	646,351
Total uses of endowment assets	46,668	(435,618)	(1,954,587)	(2,343,537)
Endowment at end of year	$ 896,408	$ 4,651,040	$ 56,650,841	$ 62,198,289

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at beginning of year	$ (548,169)	$ 3,815,736	$ 51,764,153	$ 55,031,720
Endowment return:				
Investment income, net of fees	7,798	75,054	422,467	505,319
Net realized/unrealized gain	100,304	965,569	5,422,277	6,488,150
Reclassification for funds with deficiencies	1,004,810	-	(1,004,810)	-
Total endowment return	1,112,912	1,040,623	4,839,934	6,993,469
Contributions	-	-	715,246	715,246
Use of endowment assets:				
Endowment payout used in operations	(46,357)	(446,249)	(2,506,394)	(2,999,000)
Other	-	-	-	-
Total uses of endowment assets	(46,357)	(446,249)	(2,506,394)	(2,999,000)
Endowment at end of year	$ 518,386	$ 4,410,110	$ 54,812,939	$ 59,741,435

Endowment Funds with Deficiencies

From time to time, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund. The aggregate amount of deficiencies of these funds is reported in unrestricted net assets in the statement of activities. Subsequent investment gains will be used to restore the balance to the fair market value of the original amount of the gift. Subsequent gains above that amount will be recorded as temporarily restricted net assets. Aggregate deficiencies for the years ended June 30, 2018 and 2017 were approximately $605,155 and $866,405 respectively.

7. Buildings and Equipment

Buildings and equipment consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Buildings and improvements	$ 22,536,349	$ 21,868,428
Equipment	5,345,230	5,271,917
Less: Accumulated depreciation and amortization	(8,913,932)	(7,815,935)
Total buildings and equipment	$ 18,967,647	$ 19,324,410

Depreciation and amortization expenses for the years ended June 30, 2018 and 2017 were $1,142,831 and $1,134,944 respectively.

8. Collections

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

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

9. Retirement Plans

Defined Contribution Plans

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

Defined Benefit Plan

The Academy offered participation in a defined benefit pension plan ("DB Plan") which covered all full-time employees with a minimum of one year of service. The Board of Trustees approved freezing the DB Plan effective December 31, 2009, replacing it with the DC Plan for all eligible Academy employees effective January 1, 2010.

9. Retirement Plans (Continued)

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

	2018	2017
Weighted average assumptions as of June 30		
Discount rate	4.30 %	3.90 %
Expected return on plan assets	6.25 %	6.25 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	$ 19,649,999	$ 20,037,370
Change in projected benefit obligation		
Benefit obligation at beginning of year	$ 20,037,370	$ 19,908,197
Service cost	230,000	160,000
Interest cost	762,228	759,443
Actuarial (gain)/loss	(321,452)	494,845
Benefits paid	(1,058,147)	(1,285,115)
Benefit obligation at end of year	$ 19,649,999	$ 20,037,370

	2018	2017
Change in plan assets		
Fair value of plan assets at beginning of year	$ 10,639,010	$ 10,582,090
Actual return on plan assets	329,910	510,080
Employer contributions	759,295	831,955
Benefits paid	(1,058,147)	(1,285,115)
Fair value of plan assets at end of year	$ 10,670,068	$ 10,639,010
Fair value of plan assets	$ 10,670,068	$ 10,639,010
Benefit obligation	(19,649,999)	(20,037,370)
Net amount recognized at end of year*	$ (8,979,931)	$ (9,398,360)

* These amounts are recognized in the statement of financial position in the post-retirement and pension benefits classification.

9. Retirement Plans (Continued)

The components of net periodic benefit cost are noted below:

	2018	2017
Weighted average assumptions used to determine net periodic benefit cost		
Discount rate	4.30 %	3.90 %
Expected return on plan assets	6.25 %	6.25 %
Components of net periodic benefit cost		
Service cost	$ 230,000	$ 160,000
Interest cost	762,228	759,443
Expected return on assets	(661,274)	(663,804)
Amortization of actuarial loss	9,912	648,569
Net periodic benefit cost	$ 340,866	$ 904,208

As of June 30, 2018, and 2017 the pension plan had a projected benefit obligation and an accumulated benefit obligation in excess of plan assets. Both the projected and accumulated benefit obligation were $19,649,999 and $20,037,370 at June 30, 2018 and 2017, respectively.

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

Expected benefit payments	
2019	$ 1,068,374
2020	1,162,274
2021	1,198,722
2022	1,225,132
2023	1,248,003
2024-2028	6,522,227

Plan Assets

The Academy's pension plan weighted-average asset allocations at June 30, 2018 and 2017 by asset category are as follows:

	2018	2017
Asset Category		
Equity securities	49.2%	49.0%
Fixed income securities	31.4%	30.8%
Alternative investments	12.3%	19.2%
Cash	7.1%	1.0%
	100.0%	100.0%

9. Retirement Plans (Continued)

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

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

The following tables present the plan assets at fair value as of June 30, 2018, and 2017 according to the valuation hierarchy:

	2018				
	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets at fair value					
Cash equivalents	$ 763,116	$ -	$ -	$ -	$ 763,116
Mutual funds	9,092,500	-	-	-	9,092,500
Alternative investments	-	-	-	814,452	814,452
Total assets at fair value	$ 9,855,616	$ -	$ -	$ 814,452	$ 10,670,068

	2017				
	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets at fair value					
Cash equivalents	$ 111,678	$ -	$ -	$ -	$ 111,678
Mutual funds	9,784,518	-	-	-	9,784,518
Alternative investments	-	-	-	742,814	742,814
Total assets at fair value	$ 9,896,196	$ -	$ -	$ 742,814	$ 10,639,010

10. Other Liabilities/Due to Drexel University

Includes amounts due to/from Drexel University and other liabilities. The amount due to Drexel University is $1,725,718 and $1,713,608 at June 30, 2018 and 2017 respectively. The intercompany accounts are repaid on a periodic basis excluding draws on the line of credit and debt (Notes 11 and 12).

11. Line of Credit

The Academy has an unsecured line of credit with Drexel University. This agreement allows the Academy to borrow up to $1,500,000 to meet short term cash flow needs. Under the terms of the line of credit agreement, the full principal amount is available at an annual interest of 1.00%. The initial term of the line of credit shall be from June 30, 2012 to June 30, 2014 and shall automatically renew for an additional 12 months on each June 30th thereafter, unless notice of non-renewal is provided in writing by either Drexel University or the Academy, 30 days in advance of the termination date. Interest on each advance shall be payable in arrears on the first business day of each month. The outstanding principal balance of any advance under the line of credit must be reduced to and remain at zero dollars for any consecutive 30-day period during the current term of the line. If the Academy is unable to reduce outstanding advances to zero and remain at zero for a consecutive 30-day period thereafter, the line of credit will be considered in default and will terminate immediately and not renew. For the years ended June 30, 2018 and 2017, there were no outstanding balances on the line of credit.

12. Long-Term Debt

On February 1, 2012 the Academy entered into a $900,000 five-year unsecured term loan agreement with Drexel University. Interest on the outstanding principal of the term loan accrued 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 was paid in full to Drexel University in fiscal year 2017.

13. Net Assets Released from Restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Operating		
Research programs	$ 1,423,882	$ 1,450,790
Public programs	1,105,657	891,930
Other programs	1,013,372	1,455,207
	$ 3,542,911	$ 3,797,927

14. Restriction on Assets

Net assets include the following:

	2018	2017
Unrestricted:		
Undesignated	$ (17,468,471)	$ (15,112,517)
Designated	(82,363)	(126,090)
Sponsored	(195,321)	(195,321)
Physical plant	21,971,709	21,437,825
Quasi-endowment funds	1,501,563	1,413,210
Relassification for endowment deficiencies	(605,155)	(894,837)
Total unrestricted net assets	5,121,962	6,522,270
Temporarily restricted:		
Funds for programs and capital expenditures	10,047,738	13,811,255
Life income annuities	25,033	11,074
Funds for endowments	4,651,040	(576,401)
Total temporarily restricted net assets	14,723,811	13,245,928
Permanently restricted:		
Endowment principal	56,040,136	54,487,759
Reclassification for endowment deficiencies	605,155	866,405
Beneficial interest in trusts	8,970,547	9,038,218
Total permanently restricted net assets	65,615,838	64,392,382
Total net assets	$ 85,461,611	$ 84,160,580

15. Related Party Transactions

Per an affiliation agreement dated September 2011, the Academy of Natural Sciences is a subsidiary of Drexel University. Drexel provided services valued at $1,635,086 and $2,236,898 for the years ending June 30, 2018 and 2017, respectively. The Academy paid the full cost of the services, reported as Services provided by Drexel University in the accompanying statements of activities. In addition, Drexel provided $3,872,055 and $4,513,242 to the Academy for operations in the fiscal years 2018 and 2017, respectively, reported as Support from Drexel University. The total administrative and non-administrative services paid by the Academy in fiscal years 2018 and 2017 are as follows:

	2018	2017
Drexel affiliated support expenses	$ 1,635,086	$ 2,236,898
Center for Systematic Biology and Evolution	273,409	231,965
Environmental Group	164,611	151,980
Development and membership	-	6,797
Public programs	3,205	671
Administration	59,780	56,140
	$ 2,136,091	$ 2,684,451

16. Subsequent Events

The Academy has evaluated events subsequent through the report issue date, October 24, 2018.