

**THE ACADEMY OF NATURAL
SCIENCES OF PHILADELPHIA**
(A PENNSYLVANIA NOT-FOR-PROFIT CORPORATION)
FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT
DECEMBER 31, 2010 AND 2009

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

YEAR ENDED DECEMBER 31, 2010 AND 2009

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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 December 31, 2010 and 2009, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits 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 December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years 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 April 11, 2011, 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.

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Zelenkofske Axelrod LLC

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 basic financial statements of The Academy of Natural Sciences of Philadelphia taken 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



ZELENKOFSCHE AXELROD LLC

Jamison, Pennsylvania
April 11, 2011

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Cash (Note 2)	\$ 341,397	\$ 245,408
Accounts Receivable, Net of Reserve for Uncollectible Accounts (2010 - \$73,416; 2009 - \$78,171) (Note 1B)	1,270,548	795,649
Grants Receivable (Note 3)	235,142	309,223
Unconditional Promises to Give (Notes 1G and 4)	346,048	208,553
Investments (Notes 1C, 1D, and 6)	50,620,457	48,969,229
Property and Equipment, Net of Accumulated Depreciation and Amortization (2010 - \$28,143,624; 2009 - \$26,816,707) (Notes 1E and 9)	15,103,859	16,189,593
Beneficial Interest in Perpetual Trusts (Note 1F)	7,211,074	6,771,541
Other Assets (Notes 10 and 11)	<u>997,726</u>	<u>1,275,184</u>
Total Assets	<u>\$ 76,126,251</u>	<u>\$ 74,764,380</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts Payable and Accrued Expenses	\$ 626,206	\$ 670,992
Contracts and Other Exchange Transactions (Note 1G)	195,740	344,409
Other Liabilities (Notes 5, 10, and 11)	5,139,495	5,125,416
Long-term Debt (Note 14)	<u>1,100,000</u>	<u>2,050,000</u>
Total Liabilities	7,061,441	8,190,817
Net Assets (Note 15)		
Unrestricted	13,641,322	15,268,351
Temporarily Restricted	7,850,404	6,864,551
Permanently Restricted	<u>47,573,084</u>	<u>44,440,661</u>
Total Net Assets	<u>69,064,810</u>	<u>66,573,563</u>
Total Liabilities and Net Assets	<u>\$ 76,126,251</u>	<u>\$ 74,764,380</u>

See accompanying notes to financial statements.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues (Note 1G)								
Research Programs								
Environmental Group	1,452,881	754,381	-	\$ 2,207,262	\$ 1,162,303	\$ 885,748	-	\$ 2,048,051
Center for Systematic Biology and Evolution	205,295	1,125,995	-	1,331,290	191,243	1,191,612	-	1,382,855
Other Programs and Grants	306,693	113,229	-	419,922	315,095	25,045	-	340,140
Endowment Income	2,437,044	723,322	-	3,160,366	2,604,738	721,927	-	3,326,665
State Appropriation	-	-	-	-	204,600	-	-	204,600
Contributions and Bequests (Note 1G)	386,395	(19,439)	539,098	906,054	396,031	(29,976)	905,865	1,271,920
Annual Fund Contributions	1,216,370	-	-	1,216,370	1,135,712	-	-	1,135,712
Museum Admissions	1,090,666	675	-	1,091,341	1,128,300	1,540	-	1,129,840
Public Programs Income	350,706	728,501	-	1,079,207	201,620	636,207	-	837,827
Membership Dues	356,263	-	-	356,263	327,817	-	-	327,817
Museum Shop Income	442,251	401	-	442,652	496,046	271	-	496,317
Museum Restaurant	394,689	-	-	394,689	289,091	-	-	289,091
Net Realized/Unrealized Gains (Losses) (Notes 1C, 1F, and 6)	279,492	677,581	2,593,325	3,550,398	311,674	959,427	3,632,307	4,903,408
Interest Income	4,092	9,304	-	13,396	88,536	9,427	-	97,963
Other Income	202,308	231,460	-	433,768	476,818	87,196	-	564,014
Total Support and Revenues	9,125,145	4,345,410	3,132,423	16,602,978	9,329,624	4,488,424	4,538,172	18,356,220
Net Assets Released From Restriction (Note 13)	3,359,557	(3,359,557)	-	-	3,819,498	(3,819,498)	-	-
Total Support, Revenues and Other Revenues	12,484,702	985,853	3,132,423	16,602,978	13,149,122	668,926	4,538,172	18,356,220

See accompanying notes to financial statement.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses								
Environmental Group	\$ 2,196,052	\$ -	\$ -	\$ 2,196,052	\$ 2,180,042	\$ -	\$ -	\$ 2,180,042
Center for Systematic Biology and Evolution	2,326,918	-	-	2,326,918	2,453,449	-	-	2,453,449
Public Programs	2,278,726	-	-	2,278,726	2,876,239	-	-	2,876,239
Museum Shop	361,457	-	-	361,457	398,570	-	-	398,570
Museum Restaurant	457,953	-	-	457,953	375,295	-	-	375,295
Library	500,838	-	-	500,838	602,961	-	-	602,961
Administration	1,369,148	-	-	1,369,148	1,348,899	-	-	1,348,899
Development and Membership	681,812	-	-	681,812	565,498	-	-	565,498
Communications	498,742	-	-	498,742	446,263	-	-	446,263
Building Operations	1,833,008	-	-	1,833,008	1,836,919	-	-	1,836,919
Computer Services	297,300	-	-	297,300	299,427	-	-	299,427
Depreciation and Amortization	1,114,432	-	-	1,114,432	1,137,857	-	-	1,137,857
Capital Projects Expense	54,591	-	-	54,591	120,735	-	-	120,735
Other Expense	123,856	-	-	123,856	419,836	-	-	419,836
Total Expenses	14,094,833	-	-	14,094,833	15,061,990	-	-	15,061,990
Increase (Decrease) in Net Assets before cumulative effect of change in Accounting Principle	(1,610,131)	985,853	3,132,423	2,508,145	(1,912,868)	668,926	4,538,172	3,294,230
Cumulative effect of change in Accounting Principle								
Pension related changes other than net periodic pension cost	(16,898)	-	-	(16,898)	966,191	-	-	966,191
Changes in Net Assets	(1,627,029)	985,853	3,132,423	2,491,247	(946,677)	668,926	4,538,172	4,260,421
Net Assets, Beginning of Year	15,268,351	6,864,551	44,440,661	66,573,563	16,215,028	6,195,625	39,902,489	62,313,142
Net Assets, End of Year	\$ 13,641,322	\$ 7,850,404	\$ 47,573,084	\$ 69,064,810	\$ 15,268,351	\$ 6,864,551	\$ 44,440,661	\$ 66,573,563

See accompanying notes to financial statements

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating and Nonoperating Activities		
Increase in Net Assets	\$ 2,491,247	\$ 4,260,421
Adjustment to Reconcile Increase (Decrease) in Net Assets to Net Cash Used in Operating and Nonoperating Activities:		
Reserve for (Recapture of) Uncollectible Accounts	(4,755)	-
Depreciation and Amortization	1,326,917	1,381,552
Realized and Unrealized Gains	(6,304,699)	(7,475,876)
Change in Value of Perpetual Trusts	(201,929)	(597,492)
Contributions Unrestricted by Perpetual Trusts Held by Third Parties	(162,604)	(163,656)
Contributions Temporarily Restricted by Perpetual Trusts Held by Third Parties	(75,000)	(75,774)
Contributions Restricted for Endowment	(377,167)	(880,894)
(Increase) Decrease in Operating Assets		
Accounts Receivable	(470,144)	120,961
Grants Receivable	74,081	(162,815)
Other Assets	277,458	1,046,070
Unconditional Promises to Give	(137,495)	497,335
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	(44,786)	70,795
Contracts and Other Exchange Transactions	(148,669)	76,367
Other Liabilities	14,079	(1,052,137)
Net Cash Used in Operating and Nonoperating Activities	(3,743,466)	(2,955,143)
Cash Flows From Investing Activities		
Proceeds From Sale of Investments	5,028,111	5,386,878
Purchase of Investments	(374,640)	(1,429,017)
Capital Disposal	-	10,391
Capital Expenditures	(241,183)	(600,687)
Net Cash Provided by Investing Activities	4,412,288	3,367,565
Cash Flows From Financing Activities		
Net (Repayments) Borrowings on Discretionary Line of Credit	-	(550,000)
Net Repayments on Long-Term Debt	(950,000)	(950,000)
Proceeds From Contributions Restricted for Endowment	377,167	880,894
Net Cash Used in Financing Activities	(572,833)	(619,106)
Net Increase (Decrease) in Cash	95,989	(206,684)
Cash - Beginning of Year	245,408	452,092
Cash - End of Year	\$ 341,397	\$ 245,408
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for:		
Interest, Net of Amounts Capitalized	\$ 54,591	\$ 120,735

See accompanying notes to financial statements.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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.

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

A) Basis of Accounting and Financial Statement Presentation

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

B) Allowance for Doubtful Accounts

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

C) Accounting for Certain Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Fair values are determined by using quoted market prices where available. No investment or group of investments represent 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) Life Income Gifts

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

E) Property and Equipment

Buildings, building improvements, automobiles and trucks, and equipment are 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.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

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

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 2010 and 2009 was \$439,533 and \$836,922, respectively. 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:

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ 162,604	\$ 163,656
Temporarily Restricted	<u>75,000</u>	<u>75,774</u>
	<u>\$ 237,604</u>	<u>\$ 239,430</u>

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.

H) 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.

I) Fund-raising

Fund-raising costs were \$822,258 and \$769,163 in 2010 and 2009, respectively.

J) 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.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

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

K) 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.

L) 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.

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:

	<u>2010</u>	<u>2009</u>
Total Cash in Bank	\$ 602,980	\$ 389,923
Portion Insured by FDIC	<u>602,980</u>	<u>(250,000)</u>
Uninsured Cash Balance	<u>-</u>	<u>\$ 139,923</u>

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

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 December 31, 2010 and 2009, respectively.

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 the following conditional promises to give which were not recognized:

	<u>2010</u>	<u>2009</u>
Science Center Support	\$ -	\$ 500,000
Endowment	<u>141,428</u>	<u>228,460</u>
Total Promises to Give	<u>\$ 141,428</u>	<u>\$ 728,460</u>

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:

	<u>2010</u>	<u>2009</u>
Unconditional Promises to Give Due in:		
Less than One Year	\$ 144,801	\$ 53,100
One Year to Five Years	<u>209,285</u>	<u>175,285</u>
	354,086	228,385
Less: Discount to Present Value	<u>(8,038)</u>	<u>(19,832)</u>
Net Unconditional Promises to Give	<u>\$ 346,048</u>	<u>\$ 208,553</u>

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

	<u>2010</u>	<u>2009</u>
Temporarily Restricted	\$ 181,616	\$ 206,053
Permanently Restricted	<u>164,432</u>	<u>2,500</u>
Total	<u>\$ 346,048</u>	<u>\$ 208,553</u>

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

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

Unconditional promises to give with a maturity greater than one year that were received were discounted at 1.80% and 4.41% in 2010 and 2009. 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 1.80% and 3.2% in 2010 and 2009 and applicable mortality tables.

The liability for distributions included in other liabilities in the statements of financial position at December 31, 2010 and 2009, is \$306,789 and \$287,350 respectively.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 6: INVESTMENTS

Investments in marketable securities of Capital Projects and the Endowment are presented in the financial statements at fair value at December 31, 2010 and 2009 and consisted of the following:

	<u>2010</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Life Income Gifts	\$ -	\$ 496,535	\$ -	\$ 496,535
Board Designated Funds	5,421,136	-	-	5,421,136
Donor Restricted Endowments	-	4,505,208	40,197,578	44,702,786
	<u>\$ 5,421,136</u>	<u>\$ 5,001,743</u>	<u>\$ 40,197,578</u>	<u>\$ 50,620,457</u>

	<u>2009</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Capital Projects	\$ 996,041	\$ -	\$ -	\$ 996,041
Life Income Gifts	82,386	451,969	-	534,355
Board Designated Funds	5,909,323	-	-	5,909,323
Donor Restricted Endowments	-	3,862,890	37,666,620	41,529,510
	<u>\$ 6,987,750</u>	<u>\$ 4,314,859</u>	<u>\$ 37,666,620</u>	<u>\$ 48,969,229</u>

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

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investments at Fair Value as				
Determined by Quoted Market Prices:				
Mutual Funds				
Equity	\$18,177,828	\$25,348,822	\$21,192,992	\$25,844,401
Real Assets	1,996,496	2,335,896	-	-
Bond	4,358,574	4,747,656	3,619,996	3,874,695
Fixed Income Securities	-	-	784,000	785,717
Time Deposits	<u>42,759</u>	<u>42,759</u>	<u>235,426</u>	<u>235,426</u>
	<u>24,575,657</u>	<u>32,475,133</u>	<u>25,832,414</u>	<u>30,740,239</u>
Investments at Estimated Fair Value:				
Fixed Income Securities	2,060,193	2,345,040	1,917,472	2,204,580
Real Estate and Commodities	2,596,464	2,447,685	2,197,481	1,870,130
Masters Limited Partnership	105,496	105,496	2,217,658	970,007
Derivative Financial Instruments	8,685,054	9,943,170	10,082,911	10,581,297
Private Equity Investments	<u>3,919,549</u>	<u>3,303,933</u>	<u>3,614,975</u>	<u>2,602,976</u>
	<u>\$41,942,413</u>	<u>\$50,620,457</u>	<u>\$45,862,911</u>	<u>\$48,969,229</u>

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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 seven alternative investment funds. The funds consist of investments in Morgan Stanley, Criterion Capital, Fir Tree Inc., Forester, and three funds from Goldman Sachs. The Morgan Stanley International Fund of Hedge Funds LP (the "Partnership") has a carrying value in 2010 and 2009, which approximates fair value, of \$1,453,672 and \$2,371,646. 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.

The Criterion Capital Partners Fund, a California limited partnership of which Criterion Capital management is the General Partner had a carrying value 2009 which approximated fair value \$2,011,480. The fair value of the Partnership assets is determined from time to time by the General Partner as the last sale or last trade price on the date of determination for, respectively, securities listed or traded on a national securities exchange or securities traded in the over-the-counter market, except that if no such last trade price is reported, the current bid price at the close of business on the date of determination is used. The fair value of securities not traded or listed, such as over-the-counter options and other restricted securities is their cost to the partnership, subject to adjustment if events occur demonstrating that the value has changed. If however the General Partner determines that special circumstances exist whereby the value of any asset should be determined in a different manner, the value of that asset is the value assigned by the General Partner in good faith.

The Partnership's investment objective is to achieve positive annual returns in both favorable and unfavorable market environments through a fundamentally researched, long/short stock selection process. The Partnership invests in holds, sells, trades, and otherwise deals in securities, consisting principally, but not solely, of equity and equity-related securities that are traded publicly in U.S. markets. When deemed appropriate by the General partner, that partnership may also invest in preferred stocks, convertible securities, warrants, options, bonds and other fixed income securities, private securities,

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NOTE 6: INVESTMENTS (CONTINUED)

non-U.S. Securities, derivatives and money market instruments. The Partnership also engages in short selling, hedging and other investment strategies. ANS liquidated this Fund in 2010.

Fir Tree Capital Opportunities Fund, Ltd. (the Fund), is a Cayman Islands exempt company. The investment has an aggregate cost and fair value at December 31, 2010 of \$2,000,000 and \$2,348,542, respectively. The investment has an aggregate cost and fair value at December 31, 2009 of \$2,000,000 and \$2,006,716, 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 December 31, 2010 of \$1,619,213 and \$1,811,045, respectively. The Global Opportunities Fund has an aggregate cost and fair value at December 31, 2009 of \$2,000,000 and \$1,938,761, 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.

The Goldman Sachs Equity Long/Short Institutional, Ltd, and Global Fundamental Strategies Funds had an aggregate cost and fair value at December 31, 2010 of \$1,612,169 and \$2,253,471, respectively. The aggregate cost and fair value of the Goldman Funds at December 31, 2009 were \$1,699,784 and \$2,252,692, respectively. The aggregate fair value of Global Equity Long/Short and 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.

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NOTE 6: INVESTMENTS (CONTINUED)

Goldman Sachs Global Equity Long/Short Institutional, Ltd. investment objective is to target attractive risk-adjusted returns with volatility lower than the broad equity markets, primarily through long and short investment opportunities in the global equity markets. To achieve this objective, this Fund will invest in Investment Fund Managers that employ strategies within the equity long/short hedge fund sector. Such strategies involve making long and short equity investments, generally based on intrinsic evaluations.

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.

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 December 31, 2010 of \$2,000,000 and \$2,076,440, respectively.

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NOTE 6: INVESTMENTS (CONTINUED)

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 December 31, 2010 of \$1,430,804 and \$901,236, respectively. The aggregate cost and fair value at December 31, 2009 of the Goldman Sachs Vintage Fund III Offshore Holdings, LP were \$1,430,804 and \$813,541, 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 December 31, 2010 of \$1,741,156 and \$1,733,218, respectively. The aggregate cost and fair value at December 31, 2009 of the Goldman Sachs Private Equity Partners 2004 Offshore Holdings, LP were \$1,713,787 and \$1,421,405, 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.

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 December 31, 2010 of \$747,589 and \$669,479, respectively. The aggregate cost and fair value at December 31, 2009 of the Goldman Sachs Equity Partners Asia Offshore Fund, L.P. were \$470,384 and \$368,030, 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.

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NOTE 6: INVESTMENTS (CONTINUED)

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.

Harvest Masters Limited Partnership Fund LLC is a Delaware limited liability company. The Fund's investment objective is to seek absolute total return by investing in publicly traded MLPs with a particular focus on energy sector MLPs. The company intends to pay out substantially all of its distributable cash flow to holders of interest through quarterly distributions. Distributable cash flow is the amount received by the company as cash or paid-in-kind distributions from investments in MLPs or their affiliates, and interest payments received on debt securities, less current or anticipated operating expenses, taxes on company taxable income, and any leverage costs paid by the company. The company intends to pay distributions each fiscal quarter provided there is sufficient distributable cash flow for such fiscal quarter.

The net asset value per unit of interest at any given time shall be equal to the net asset value of the company divided by the number of interests then outstanding and issued to members and rounding such number to the nearest hundredth of a unit of interest. The value of an asset generally will be determined based on representative prices for the asset in the marketplace. The aggregate cost and fair value of the investment at December 31, 2009 were \$2,217,658 and \$970,007, respectively. The Academy liquidated its holdings in Harvest Masters Limited Partnership Fund LLC in 2010. Under the subscription agreement 90% was distributed by December 31, 2010 with the remaining 10% withheld until the annual audit was completed. The remaining 10% was received by the Academy in January 2011.

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.

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NOTE 6: INVESTMENTS (CONTINUED)

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 December 31, 2010 of \$1,524,930 and \$1,581,544, respectively. The Madison International Real Estate Liquidity Fund III has an aggregate cost and fair value at December 31, 2009 of \$1,353,950 and \$1,186,974, respectively. The Academy has a commitment to purchase a total of \$2,000,000 in the Fund and the first purchase occurred during 2007.

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 December 31, 2010 of \$1,071,533 and \$866,141, respectively. Verdis Real Asset Fund LP has an aggregate cost and fair value at December 31 2009 of \$843,531 and \$683,156, respectively. The Academy has a commitment to purchase a total of \$2,000,000 in the Fund and the first purchase occurred in 2007.

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.

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NOTE 6: INVESTMENTS (CONTINUED)

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 December 31, 2010 were \$2,060,193 and \$2,345,040, respectively. Colchester Global bond Fund had an aggregate cost and fair value at December 31, 2009 of \$1,917,472 and \$2,204,580 respectively.

The following tabulation summarizes the relationship between cost and fair values of investment assets as of December 31, 2010 and 2009.

2010

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
Balance at End of Year	\$ 41,942,413	\$ 50,620,457	\$ 8,678,044
Balance at Beginning of Year	45,862,912	48,969,229	3,106,317
Increase in Unrealized Gains for the Year			5,571,727
Realized Gains for the Year			(349,923)
Increase in Value of Beneficial Interest in Perpetual Trusts			439,533
Investment Income Transferred			(2,110,939)
Net Gain for the Year			<u>\$ 3,550,398</u>

2009

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
Balance at End of Year	\$ 45,862,912	\$ 48,969,229	\$ 3,106,317
Balance at Beginning of Year	57,422,936	45,451,214	(11,971,722)
Decrease in Unrealized Gains for the Year			15,078,039
Realized Gains for the Year			(8,861,430)
Increase in Value of Beneficial Interest in Perpetual Trusts			836,922
Investment Income Transferred			(2,150,123)
Net Gain for the Year			<u>\$ 4,903,408</u>

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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.

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 plan 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.

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NOTE 7: FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2010:

<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 341,397	\$ -	\$ -	\$ 341,397
Mutual Funds	27,684,718	-	-	27,684,718
Fixed Income Securities	4,747,656	-	2,345,040	7,092,696
Time Deposits	42,759	-	-	42,759
Alternative Investments	-	-	15,800,284	15,800,284
Beneficial Interest in Perpetual Trusts	<u>7,211,074</u>	<u>-</u>	<u>-</u>	<u>7,211,074</u>
Total Assets at Fair Value	<u>\$ 40,027,604</u>	<u>\$ -</u>	<u>\$ 18,145,324</u>	<u>\$ 58,172,928</u>

<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 245,408	\$ -	\$ -	\$ 245,408
Mutual Funds	29,719,096	-	-	29,719,096
Fixed Income Securities	785,717	-	2,204,580	2,990,297
Time Deposits	235,426	-	-	235,426
Alternative Investments	-	-	16,024,410	16,024,410
Beneficial Interest in Perpetual Trusts	<u>6,771,541</u>	<u>-</u>	<u>-</u>	<u>6,771,541</u>
Total Assets at Fair Value	<u>\$ 37,757,188</u>	<u>\$ -</u>	<u>\$ 18,228,990</u>	<u>\$ 55,986,178</u>

The following table sets forth a summary of changes in the fair value of the Academy's level 3 assets for the year ended December 31, 2010:

	<u>2010</u>	<u>2009</u>
Balance, Beginning of year	\$ 18,228,990	\$ 14,408,351
Total gain or losses (realized and unrealized)	1,412,936	498,178
Dividends and Interest Income	231,676	353,398
Purchases and Sales	<u>(1,728,278)</u>	<u>2,969,063</u>
Balance, End of year	<u>\$ 18,145,324</u>	<u>\$ 18,228,990</u>

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.

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NOTE 8: ENDOWMENTS (CONTINUED)

Endowment Net Assets consisted of the following as of December 31:

	<u>2010</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Designated Fund	\$ 5,321,268	\$ -	\$ -	\$ 5,321,268
Donor Restricted Endowments	-	4,505,208	40,197,578	44,702,786
	<u>\$ 5,321,268</u>	<u>\$ 4,505,208</u>	<u>\$ 40,197,578</u>	<u>\$ 50,024,054</u>

	<u>2009</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Designated Fund	\$ 5,909,323	\$ -	\$ -	\$ 5,909,323
Donor Restricted Endowments	-	3,862,890	37,666,620	41,529,510
	<u>\$ 5,909,323</u>	<u>\$ 3,862,890</u>	<u>\$ 37,666,620</u>	<u>\$ 47,438,833</u>

	<u>2010</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 5,909,323	\$ 3,862,890	\$ 37,666,620	\$ 47,438,833
Investment Return:				
Investment Income net of fees	84,953	-	987,634	1,072,587
Net appreciation (realized and unrealized)	433,895	642,318	4,100,064	5,176,277
Total Investment Return	518,848	642,318	5,087,698	6,248,864
Contributions	-	-	374,640	374,640
Appropriation of endowment for expenditures	(1,106,903)	-	(2,931,380)	(4,038,283)
Transfer to Board Designated Endowment Funds	-	-	-	-
Endowment Net Assets, End of Year	<u>\$ 5,321,268</u>	<u>\$ 4,505,208</u>	<u>\$ 40,197,578</u>	<u>\$ 50,024,054</u>

	<u>2009</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 6,657,035	\$ 2,966,812	\$ 33,491,227	\$ 43,115,074
Investment Return:				
Investment Income net of fees	158,272	-	1,029,573	1,187,845
Net appreciation (realized and unrealized)	515,572	896,078	4,778,160	6,189,810
Total Investment Return	673,844	896,078	5,807,733	7,377,655
Contributions	-	-	1,428,304	1,428,304
Appropriation of endowment for expenditures	(1,421,556)	-	(3,060,644)	(4,482,200)
Transfer to Board Designated Endowment Funds	-	-	-	-
Endowment Net Assets, End of Year	<u>\$ 5,909,323</u>	<u>\$ 3,862,890</u>	<u>\$ 37,666,620</u>	<u>\$ 47,438,833</u>

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 8: ENDOWMENTS (CONTINUED)

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 2010 and a three year rolling average for 2009. 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.

NOTE 9: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	<u>2010</u>	<u>2009</u>	<u>Life</u>
Buildings	\$ 30,762,451	\$ 30,754,744	50 Years
Building Improvements	1,979,405	1,920,249	20 Years
Equipment	10,244,872	10,098,381	3 - 10 Years
Vehicles	38,528	38,528	
Work in Progress	<u>222,227</u>	<u>194,398</u>	5 Years
	43,247,483	43,006,300	
Less: Accumulated Depreciation and Amortization	<u>28,143,624</u>	<u>26,816,707</u>	
	<u>\$ 15,103,859</u>	<u>\$ 16,189,593</u>	

Depreciation and amortization expenses for the years ended December 31, 2010 and 2009 were \$1,326,917 and \$1,381,552.

Depreciation and amortization expenses are recorded in the statement of activities for \$1,114,432 for 2010 and \$1,137,857 for 2009, as these assets were purchased with non-operating revenues. In addition, \$212,485 for 2010 and \$243,695 for 2009 in depreciation and amortization expenses were included as a part of operating expenses.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

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 as of December 31, 2009 the plan was frozen to new participants.

The employer contribution for the TIAA-CREF defined contribution pension plan year ended December 31, 2009 was \$41,716. The amounts were funded on a monthly basis. The plan was frozen in 2010.

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 year ended December 31, 2010 there was no employer contribution to the defined contribution plan. The Academy did make a required contribution to the frozen defined benefit plan in the amount of \$175,670 for 2010 and \$0 for 2009.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 11: PENSION PLAN (CONTINUED)

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.

If the Academy had chosen to continue to use Rate:Link in 2010, the discount rate would have been 5.30%. The Plan's Projected Benefit Obligation would have been \$13,506,372 as of December 31, 2010 and the amount recognized in accumulated other comprehensive income would have been \$4,532,766.

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

	<u>2010</u>	<u>2009</u>
<u>Weighted-average assumptions as of December 31</u>		
Discount rate	5.75%	5.90%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	N/A	N/A
<u>Accumulated Benefit Obligation</u>		
Accumulated Benefit Obligation at End of Year	<u>\$ 12,803,721</u>	<u>\$ 12,467,908</u>
<u>Change in Projected Benefit Obligation</u>		
Net benefit obligation at beginning of year	\$ 12,467,908	\$ 12,742,863
Service cost	80,000	299,284
Interest cost	715,079	773,968
Plan participants' contributions	-	-
Plan amendments	-	-
Actuarial (gain) loss	117,856	317,474
Acquisitions/Divestitures	-	-
Curtailments	-	(1,101,285)
Settlements	-	-
Special termination benefits	-	-
Gross benefits paid	<u>(577,122)</u>	<u>(564,396)</u>
Net benefit obligation at end of year	<u>\$ 12,803,721</u>	<u>\$ 12,467,908</u>

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 11: PENSION PLAN (CONTINUED)

	<u>2010</u>	<u>2009</u>
<u>Change in Plan Assets</u>		
Fair value of plan assets at beginning of year	\$ 7,874,332	\$ 7,183,096
Actual return on plan assets	896,037	1,255,632
Employer contributions	175,680	-
Plan participants' contributions	-	-
Acquisitions/Divestitures	-	-
401(h) transfer	-	-
Gross benefits paid	<u>(577,122)</u>	<u>(564,396)</u>
Fair value of plan assets at end of year	<u>\$ 8,368,927</u>	<u>\$ 7,874,332</u>
 Funded status at end of year	 \$ (4,434,794)	 \$ (4,593,576)
Unrecognized net actuarial (gain) loss	3,830,115	4,099,168
Unrecognized prior service cost	-	-
Unrecognized net transition obligation (asset)	<u>-</u>	<u>-</u>
Net amount recognized at end of year	<u>\$ (604,679)</u>	<u>\$ (494,408)</u>
 Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost	\$ -	\$ -
Accrued benefit cost	-	-
Additional minimum liability*	(4,434,794)	(4,593,576)
Intangible asset	-	-
Accumulated other comprehensive income *	<u>3,830,115</u>	<u>4,099,168</u>
Net amount recognized at end of year *	<u>\$ (604,679)</u>	<u>\$ (494,408)</u>

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

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 11: PENSION PLAN (CONTINUED)

The components of net periodic benefit cost are noted below:

	<u>2010</u>	<u>2009</u>
<u>Weighted-average assumptions used to determine net periodic benefit cost</u>		
Discount rate	5.90%	6.10%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	N/A	4.00%
<u>Components of net periodic benefit cost</u>		
Service cost	\$ 80,000	\$ 299,284
Interest cost	715,079	773,968
Expected return on assets	(609,389)	(553,334)
Amortization of:		
Transition obligation (asset)	-	-
Prior service cost	-	-
Actuarial (gain) loss	100,261	444,470
Net periodic benefit cost	\$ 285,951	\$ 964,388
<u>FAS 88 charges:</u>		
Curtailment charge(credit)	-	-
Settlement charge(credit)	-	-
Total net periodic benefit cost	\$ 285,951	\$ 964,388

The measurement date used by the Academy is December 31. At the end of 2010 and 2009, the pension plan had a projected benefit obligation in excess of plan assets and an accumulated benefit obligation in excess of plan assets. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan are as follows:

Projected Benefit Obligation Exceeds Fair Value of Plan Assets			
	<u>2010</u>		<u>2009</u>
Projected benefit obligation	\$ 12,803,721		\$ 12,467,908
Fair value of plan assets	\$ 8,368,927		\$ 7,874,332
Accumulated Benefit Obligation Exceeds Fair Value of Plan Assets			
	<u>2010</u>		<u>2009</u>
Accumulated benefit obligation	\$ 12,803,721		\$ 12,467,908
Fair value of plan assets	\$ 8,368,927		\$ 7,874,332

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 11: PENSION PLAN (CONTINUED)

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

Expected benefit payments		
2011	\$	594,052
2012		624,740
2013		650,082
2014		696,443
2015		725,025
2016-2020		4,436,982

Plan Assets:

The Academy's pension plan weighted-average asset allocations at December 31, 2010 and 2009, by asset category are as follows:

<u>Asset Category</u>	Plan Assets at December 31	
	<u>2010</u>	<u>2009</u>
Equity Securities	40.3%	38.2%
Fixed Income Securities	24.8%	17.8%
Hedge Funds and Alternative Investments	32.2%	43.5%
Cash	2.7%	0.5%
Total	<u>100.0%</u>	<u>100.0%</u>

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)
DECEMBER 31, 2010 AND 2009

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.

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 December 31, 2010 was a decrease in the pension liability of \$158,782 and a decrease in unrestricted net assets of \$16,898. The effect to the Academy's financial statements as of December 31, 2009 was a decrease in the pension liability of \$966,191 and an increase in unrestricted net assets of the same amount. The unfunded pension liability as of December 31, 2010 was \$4,434,794 and that was a decrease from the prior year amount of unfunded pension liability of \$4,593,576.

Incremental Effect of Applying FASB ASC 958-715 on
Individual Line Items in the Statement of Financial Position
December 31, 2010

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Asset/Comprehensive Income	\$ (604,679)	\$ 1,033,852	\$ 429,173
Liability for Pension Benefits	<u>-</u>	<u>(4,434,794)</u>	<u>(4,434,794)</u>
	<u>(604,679)</u>	<u>(3,400,942)</u>	<u>(4,005,621)</u>

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

2007	\$ (953,524)
2008	(3,396,711)
2009	966,191
2010	<u>(16,898)</u>
Total	<u>\$ (3,400,942)</u>

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 11: PENSION PLAN (CONTINUED)

Incremental Effect of Applying FASB ASC 958-715 on
Individual Line Items in the Statement of Financial Position
December 31, 2009

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Asset/Comprehensive Income	\$ (458,455)	\$ 1,173,579	\$ 715,124
Liability for Pension Benefits	<u>(35,953)</u>	<u>(4,557,623)</u>	<u>(4,593,576)</u>
	<u>(494,408)</u>	<u>(3,384,044)</u>	<u>(3,878,452)</u>

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

2007	\$ 953,524
2008	3,396,711
2009	<u>(966,191)</u>
Total	<u>\$ 3,384,044</u>

NOTE 12: CONTRIBUTED SERVICES

During 2010 and 2009, the Academy received in-kind advertising services valued at \$32,200 and \$7,760, respectively, 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 \$4,000,000 line of credit agreement with Citizen's Bank expired in July 2010. The Academy replaced the facility with a new 364-day line of credit with Citizen's Bank. The new unsecured line of credit agreement allows the Academy to borrow up to \$2,500,000 with the bank. Under the terms of the discretionary line of credit agreement, the full principal amount is available at an annual interest rate equal to the sum of the 30 day LIBOR rate plus 3.85%. The effective rate as of December 31, 2010 was 4.11%. There were no borrowings as of December 31, 2010 compared to \$0 as of December 31, 2009. Interest paid on the line of credit was \$0 and \$8,019 in 2010 and 2009, respectively. The prior \$4,000,000 line of credit accrued interest at an annual rate equal to the sum of the 30 day LIBOR rate plus 1.00%. The effective rate as of December 31, 2009 was 4.08%.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 14: LONG-TERM DEBT

Due to the unprecedented investment market upheaval in 2008, and the negative impact it had on investment assets, the Academy's unrestricted net assets were not equal to at least 90% of the unrestricted net assets as measured by the previous two fiscal years, as of December 31, 2008, as required under the covenant of the 1998 twenty-year, \$4,250,000 tax exempt bond financing agreement. Due to the covenant default, JP Morgan called the bond effective July 1, 2009.

The bond was retired utilizing a combination of accumulated resources specifically for this purpose along with \$2,050,000 from a new five-year unsecured term loan from Citizen's Bank. Interest on the outstanding principal of the term loan accrues at a rate per annum equal to the sum of the 30 day LIBOR rate plus 4.25%. The effective rate as of December 31, 2009 and 2010 was 4.4829%. Interest paid aggregated \$112,716 in 2009 which was a combination of final interest due on the 1998 twenty-year bond, and interest paid on the new five-year term loan during 2009.

Financial covenants on the five-year loan include a requirement that the Academy maintain unrestricted and Board designated assets of 1.25 times the outstanding 5 year-term loan and the line of credit balances tested on every December 31st and June 30th. The covenants also require providing audited financial statements within 150 days after the end of each fiscal year.

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

2012	\$ 200,000
2013	200,000
2014	<u>700,000</u>
	<u>\$ 1,100,000</u>

The five-year term loan allows for early retirement without penalty, if advance payments are made on the LIBOR reset date. As of April 1, 2010 the Academy had made the 2010 and 2011 payments, reducing the outstanding principal balance to \$1,100,000. The next required principal payment is not due until July 1, 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 are as follows for the years ending December 31:

	<u>2010</u>	<u>2009</u>
Operating		
Research Programs	\$ 2,375,299	\$ 2,484,281
Public Programs	595,940	1,148,172
Other Programs	<u>388,318</u>	<u>187,045</u>
	<u>\$ 3,359,557</u>	<u>\$ 3,819,498</u>

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 16: RESTRICTION ON ASSETS

The restrictions on net assets at December 31, 2010 and 2009, respectively, relate to funds raised prior to December 31, 2010 and 2009, to be used for research and education programs, and to support non-operating activities such as the expansion of research and museum facilities.

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Unrestricted net assets are as follows:		
Capital Expenditures	\$ 15,103,859	\$16,189,593
Board-Designated Funds	2,543,084	2,874,824
Pension Reserve	(4,005,621)	(3,878,452)
Life Income Gifts	-	82,386
	<u>\$ 13,641,322</u>	<u>\$ 15,268,351</u>
Temporarily restricted net assets are available for the following purposes:		
Support of Designated Programs	\$ 7,660,658	\$ 6,699,932
Life Income Gifts	189,746	164,619
	<u>\$ 7,850,404</u>	<u>\$ 6,864,551</u>
Permanently restricted net assets are as follows:		
Endowment	<u>\$ 47,573,084</u>	<u>\$44,440,661</u>

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 estimates there will be no taxes due on unrelated business income for 2010 based on 2009 990T filing. The Academy elected to carry forward into 2010 the refund from 2009 990T filing. The amount of unrelated business income generated by the Academy does not threaten the Academy's 501(c) 3 status.

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
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

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: SUBSEQUENT EVENTS

Subsequent events for the Academy of Natural Sciences of Philadelphia have been evaluated through the report issue date, April 11, 2011. The financial statements for the Academy as of December 31, 2010 were available to be issued as of April 11, 2011.

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Grantor's Number</u>	<u>Federal Expenditures</u>
Research and Development – Cluster:			
<u>U.S. Environmental Protection Agency</u>			
Water Pollution Control-State and Interstate Program Support	66.419		\$ 79,221
National Estuary Program	66.456		21,706
Nonpoint Source Implementation Guide	66.460		1,115
Regional Wetland Program Development Grants	66.461		450
National Wetland Program Development & 5-Star Restoration Training	66.462		4,334
REMAP Research Projects	66.512		6,720
Total U.S. Environmental Protection Agency			<u>113,546</u>
<u>U.S. National Science Foundation</u>			
Biological Sciences	47.074		464,531
Geosciences	47.050		30,025
Education and Human Resources	47.076		54,373
Total U.S. National Science Foundation			<u>548,929</u>
<u>U.S. Army Corp of Engineers</u>			
Planning Assistance to States	12.110		17,069
Total U.S. Army Corp of Engineers			<u>17,069</u>
<u>National Institute of Health</u>			
International Research and Research Training	93.989		75,386
Total National Institute of Health			<u>75,386</u>
<u>U.S. Department of the Interior</u>			
Wildlife Restoration	15.611		407
U.S. Geological Survey_Research and Data Collection	15.808		296,181
Total U.S. Department of the Interior			<u>296,588</u>
<u>Office of Personnel Management</u>			
Intergovernmental Personnel Act (IPA)	27.011		25,187
Total Office of Personnel Management			<u>25,187</u>
<u>Institute of Museum and Library Services</u>			
Museums of America	45.301		1,030
Total Institute of Museum and Library Services			<u>1,030</u>
Total Expenditures of Federal Awards/Total Research and Development Cluster			<u>\$ 1,077,735</u>

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2010

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:

<u>Agency</u>	<u>CFDA #</u>	<u>Amount Provided to Subrecipients</u>
U.S. National Science Foundation	47.074	\$ 94,017
U.S. Department of Interior	15.808	2,375
U.S. Environmental Protection Agency	66.456	4,000

Zelenkofske Axelrod LLC

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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 year ended December 31, 2010 and have issued our report thereon dated April 11, 2011. 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 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 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 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.

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

Zelenkofske Axelrod LLC

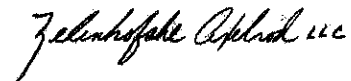
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To the Board of Trustees
The Academy of Natural Sciences of Philadelphia

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.



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Jamison, Pennsylvania
April 11, 2011

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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 year ended December 31, 2010. 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 that have a direct and material effect on 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 requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

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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, 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 does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.


ZELENKOFSCHE AXELROD LLC

Jamison, Pennsylvania
April 11, 2011

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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.