

American Academy of Actuaries

Financial Report
December 31, 2013

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Independent Auditor's Report

To the Board of Directors
American Academy of Actuaries
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of American Academy of Actuaries (the Academy) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, expenses by categories, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Academy of Actuaries as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

McLean, Virginia
April 24, 2014

American Academy of Actuaries

**Statements of Financial Position
December 31, 2013 and 2012**

| | 2013 | 2012 |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,617,176 | \$ 4,035,479 |
| Certificates of deposit | 2,221,000 | 3,152,980 |
| Accounts receivable | 350,166 | 377,349 |
| Due from Casualty Actuarial Society | 114,703 | 87,534 |
| Due from Conference of Consulting Actuaries | 15,000 | 15,000 |
| Prepaid expenses | 264,339 | 208,197 |
| Total current assets | 6,582,384 | 7,876,539 |
| Long-Term Investments | | |
| Mutual funds, at fair value | 12,038,053 | 8,907,624 |
| Certificates of deposit | 73,100 | 73,100 |
| Total long-term investments | 12,111,153 | 8,980,724 |
| Furniture, Equipment and Leasehold Improvements, net | 937,395 | 1,108,824 |
| Total assets | \$ 19,630,932 | \$ 17,966,087 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 413,779 | \$ 347,177 |
| Accrued expenses | 375,497 | 318,862 |
| Accrued annual leave | 101,747 | 98,361 |
| Deferred revenue | | |
| Membership dues | 4,542,725 | 4,629,540 |
| Other | 94,669 | 118,737 |
| Deferred rent liability | 53,442 | 45,784 |
| Total current liabilities | 5,581,859 | 5,558,461 |
| Deferred Rent Liability, long term | 481,030 | 518,004 |
| Liability for Pension Benefits, defined benefit plan | - | 320,748 |
| Total liabilities | 6,062,889 | 6,397,213 |
| Unrestricted Net Assets | | |
| Undesignated | 13,426,057 | 11,426,903 |
| Designated, Actuarial Board for Counseling and Discipline Litigation Fund | 141,986 | 141,971 |
| Total net assets | 13,568,043 | 11,568,874 |
| Total liabilities and net assets | \$ 19,630,932 | \$ 17,966,087 |

See Notes to Financial Statements.

American Academy of Actuaries

Statements of Activities

Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Revenue | | |
| Membership dues | \$ 9,309,315 | \$ 9,051,207 |
| Membership application fees | 53,625 | 53,775 |
| Investment income, net of expenses | 522,648 | 246,441 |
| Enrolled Actuaries Meeting distribution | 112,162 | 84,517 |
| Casualty Loss Reserve Seminar distribution | 114,702 | 87,534 |
| Seminars | 256,240 | 226,388 |
| Advertising income | 556,012 | 564,364 |
| Manual sales | 179,190 | 153,535 |
| Webcast income | 217,073 | 288,122 |
| Service fees | 202,271 | 206,090 |
| Administrative services | 27,851 | 28,462 |
| Other | 111,146 | 113,875 |
| Total revenue | 11,662,235 | 11,104,310 |
| Expenses | 11,054,719 | 10,055,593 |
| Change in net assets from operating activities | 607,516 | 1,048,717 |
| Other changes in net assets | | |
| Net appreciation in fair value of mutual funds | 966,242 | 586,923 |
| Pension-related changes other than net periodic pension cost | 425,411 | (37,799) |
| Changes in net assets | \$ 1,999,169 | \$ 1,597,841 |

See Notes to Financial Statements.

American Academy of Actuaries

Statements of Expenses by Categories
Years Ended December 31, 2013 and 2012

| | 2013 | | | | 2012 | | | |
|--|-----------------------|----------------------------------|---|----------------------|-----------------------|----------------------------------|---|----------------------|
| | Academy Operations | Actuarial Standards Boards | Actuarial Board for Counseling and Discipline | Total | Academy Operations | Actuarial Standards Boards | Actuarial Board For Counseling and Discipline | Total |
| Salaries | \$ 3,993,646 | \$ 168,846 | \$ 122,256 | \$ 4,284,748 | \$ 3,734,501 | \$ 147,065 | \$ 157,615 | \$ 4,039,181 |
| Employee insurance | 247,521 | 10,461 | 7,575 | 265,557 | 241,781 | 9,521 | 10,205 | 261,507 |
| Payroll taxes | 252,671 | 10,703 | 7,750 | 271,124 | 238,132 | 9,378 | 10,050 | 257,560 |
| Pension plans | 451,285 | 19,072 | 13,810 | 484,167 | 396,748 | 15,624 | 16,745 | 429,117 |
| Temporary help and personnel fees | 77,503 | - | - | 77,503 | 48,035 | - | - | 48,035 |
| Rent | 904,653 | 38,223 | 27,676 | 970,552 | 899,444 | 35,420 | 37,961 | 972,825 |
| Telephone | 52,754 | 2,248 | 1,628 | 56,630 | 50,128 | 1,974 | 2,116 | 54,218 |
| Postage and freight | 15,677 | 2,871 | 498 | 19,046 | 13,841 | 2,863 | 1,298 | 18,002 |
| Travel and related expense | 199,212 | 83,591 | 78,341 | 361,144 | 120,500 | 72,672 | 78,067 | 271,239 |
| Annual meeting | 95,168 | - | - | 95,168 | 73,799 | - | - | 73,799 |
| Seminars | 173,272 | - | - | 173,272 | 119,625 | - | - | 119,625 |
| Committee meetings | 274,672 | 43,103 | 32,343 | 350,118 | 146,536 | 36,795 | 34,772 | 218,103 |
| Presidential travel | 144,290 | - | - | 144,290 | 69,201 | - | - | 69,201 |
| General office supplies and equipment rental | 120,037 | 5,105 | 3,696 | 128,838 | 111,953 | 4,409 | 4,725 | 121,087 |
| Technology and database | 103,392 | 4,375 | 3,168 | 110,935 | 102,607 | 4,041 | 4,331 | 110,979 |
| Printing | 19,765 | 7,970 | 76 | 27,811 | 23,147 | 3,686 | 296 | 27,129 |
| Personnel development | 14,775 | - | - | 14,775 | 1,174 | - | - | 1,174 |
| Professional services | 219,273 | 10,016 | - | 229,289 | 214,749 | 10,581 | 8,498 | 233,828 |
| Audit and accounting | 23,779 | 972 | 704 | 25,455 | 28,662 | 1,129 | 1,209 | 31,000 |
| Insurance | 42,560 | 1,519 | 1,100 | 45,179 | 33,287 | 1,311 | 1,405 | 36,003 |
| Depreciation and amortization | 194,037 | 8,204 | 5,940 | 208,181 | 199,379 | 7,851 | 8,415 | 215,645 |
| Subscriptions, periodicals and dues | 55,065 | - | 2,868 | 57,933 | 58,728 | - | 3,904 | 62,632 |
| Communications | 196,144 | - | - | 196,144 | 43,749 | - | - | 43,749 |
| Membership/external relations programs | 88,632 | - | - | 88,632 | 88,442 | - | - | 88,442 |
| Affiliation fees | 298,798 | - | - | 298,798 | 307,056 | - | - | 307,056 |
| Contingencies | 467,360 | - | - | 467,360 | 490,118 | - | - | 490,118 |
| Manuals | 128,958 | - | - | 128,958 | 127,566 | - | - | 127,566 |
| Contribution, Actuarial Foundation | 93,360 | - | - | 93,360 | 90,640 | - | - | 90,640 |
| Health Practice Council | 300,217 | - | - | 300,217 | 308,436 | - | - | 308,436 |
| Pension Practice Council | 112,898 | - | - | 112,898 | 82,113 | - | - | 82,113 |
| Life Practice Council | 261,606 | - | - | 261,606 | 263,984 | - | - | 263,984 |
| Casualty Practice Council | 29,939 | - | - | 29,939 | 35,385 | - | - | 35,385 |
| Council on Professionalism | 46,066 | - | - | 46,066 | 47,842 | - | - | 47,842 |
| Risk Management and Financial Reporting Practice Council | 37,915 | - | - | 37,915 | 32,897 | - | - | 32,897 |
| International Secretary/Representatives travel | 168,910 | - | - | 168,910 | 38,720 | - | - | 38,720 |
| Income taxes | 46,214 | - | - | 46,214 | 56,850 | - | - | 56,850 |
| Bank and credit card fees | 257,689 | - | - | 257,689 | 230,539 | - | - | 230,539 |
| Webcast expenses | 62,610 | - | - | 62,610 | 67,171 | - | - | 67,171 |
| Investigative | - | - | 40,264 | 40,264 | - | - | 48,230 | 48,230 |
| Other | 12,718 | 929 | 1,777 | 15,424 | 22,734 | 594 | 638 | 23,966 |
| | \$ 10,285,041 | \$ 418,208 | \$ 351,470 | \$ 11,054,719 | \$ 9,260,199 | \$ 364,914 | \$ 430,480 | \$ 10,055,593 |

See Notes to Financial Statements.

American Academy of Actuaries

**Statements of Changes in Net Assets
Years Ended December 31, 2013 and 2012**

| | Unrestricted | Designated | Total |
|---|----------------------|-------------------|----------------------|
| Unrestricted net assets, December 31, 2011 | \$ 9,824,089 | \$ 146,944 | \$ 9,971,033 |
| Change in net assets | 1,597,826 | 15 | 1,597,841 |
| Designated net assets applied to expenses | 4,988 | (4,988) | - |
| Unrestricted net assets, December 31, 2012 | \$ 11,426,903 | \$ 141,971 | \$ 11,568,874 |
| Change in net assets | 1,999,154 | 15 | 1,999,169 |
| Unrestricted net assets, December 31, 2013 | \$ 13,426,057 | \$ 141,986 | \$ 13,568,043 |

See Notes to Financial Statements.

American Academy of Actuaries

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|--------------------|--------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 1,999,169 | \$ 1,597,841 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Loss on disposal of property and equipment | 165 | - |
| Depreciation and amortization | 208,181 | 215,645 |
| Net appreciation in fair value of mutual funds | (966,242) | (586,923) |
| Changes in assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable | 27,183 | (89,806) |
| Due from Casualty Actuarial Society | (27,169) | (6,822) |
| Prepaid expenses | (56,142) | (95,041) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 123,237 | 98,571 |
| Pension-related liabilities | (320,748) | (121,399) |
| Accrued annual leave | 3,386 | 11,798 |
| Deferred membership dues | (86,815) | 596,760 |
| Other deferred revenue | (24,068) | 55,258 |
| Deferred rent liability | (29,316) | (5,819) |
| Net cash provided by operating activities | 850,821 | 1,670,063 |
| Cash flows from Investing Activities | | |
| Purchases of furniture, equipment and leasehold improvements | (36,917) | (30,795) |
| Proceeds from maturities of certificates of deposit | 5,745,980 | 3,373,955 |
| Purchases of certificates of deposit | (4,814,000) | (3,644,000) |
| Purchases of mutual funds and reinvested earnings | (2,164,187) | (3,232,548) |
| Net cash used in investing activities | (1,269,124) | (3,533,388) |
| Net decrease in cash and cash equivalents | (418,303) | (1,863,325) |
| Cash and Cash Equivalents: | | |
| Beginning of year | 4,035,479 | 5,898,804 |
| End of year | \$ 3,617,176 | \$ 4,035,479 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for income taxes | \$ 46,050 | \$ 45,192 |

See Notes to Financial Statements.

American Academy of Actuaries

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

As the organization representing the entire United States actuarial profession, the American Academy of Actuaries (the Academy), founded in 1965, serves the public and the actuarial profession both nationally and internationally.

To accomplish this:

- As the public voice for the United States actuarial profession, the Academy provides independent and objective actuarial information, analysis, and education for the formation of sound public policy
- The Academy provides for the establishment, maintenance, and enforcement of high professional standards of actuarial qualification, practice, and conduct
- The Academy advances actuarial practice by informing and educating its members on public policy and professionalism issues and current and emerging practices
- The Academy identifies and addresses issues on behalf of the public interest on matters in which actuarial science provides a unique understanding
- The Academy increases the public's understanding and recognition of the value of the actuarial profession
- The Academy provides opportunities for professional development of its members through volunteerism and service to the profession
- The Academy facilitates and coordinates response to issues of common interest among the U.S.-based actuarial associations
- The Academy coordinates the representation of the U.S. profession globally.

A summary of the Academy's significant accounting policies follows:

Basis of Accounting: The financial statements have been prepared using the accrual method of accounting, whereby, revenue is recognized when earned and expenses are recorded when incurred.

Net Assets: The Academy had no permanently restricted or temporarily restricted net assets at December 31, 2013 and 2012. The Academy's unrestricted net assets as of December 31, 2013 and 2012, consisted of the following:

Undesignated net assets: Reflects transactions related to the general operations of the Academy, the Actuarial Standards Board (ASB) and the Actuarial Board for Counseling and Discipline (ABCD). The ASB was established in 1988 within the Academy to develop and promulgate actuarial standards of practice. The ABCD was established in 1992 within the Academy to work with the profession to maintain the quality and integrity of the actuary's work. It is the ABCD's duty to uphold the actuarial profession's standards of conduct, practice, and qualification. The organizations participating in the funding of the ASB and ABCD include: American Society of Pension Professionals and Actuaries (ASPPA), Casualty Actuarial Society (CAS), Conference of Consulting Actuaries (CCA), Society of Actuaries (SOA), and the Academy.

Designated net assets: Reflects transactions related to the ABCD Litigation Fund. The ABCD Litigation Fund was established in 1993 in anticipation of potential suits filed by actuaries disciplined based on recommendations of the ABCD. The initial funding was obtained through a transfer from the Academy and contributions from other organizations who participate in the support of the ABCD. There were no contributions made to ABCD during 2013 and 2012. Changes to the designated net assets consist of transfers and contributions, interest income, and litigation expenses, when incurred.

American Academy of Actuaries

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Investments: Investments in mutual funds and negotiable certificates of deposit are stated at fair value which represents publicly quoted market prices as of the last business day of the year.

Furniture, Equipment and Leasehold Improvements: Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or term of the leases, which range three to ten years.

Revenue Recognition: Revenue from membership dues is recognized over the applicable membership period. Meeting registration fees, subscriptions, and other fees and services are recognized as revenue as services are provided.

Service fees are assessed to other actuarial organizations (American Society of Pension Professionals and Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and the Society of Actuaries) to provide partial financial support to the ASB and the ABCD. Fees are based on the percentage of members in each organization who are not members of the Academy.

Income Taxes: The Academy is generally exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code, as well as the D.C. franchise tax, except for taxes on net income from unrelated business activities. For 2013 and 2012, the Academy has provided information to its members on the portion of dues that is allocable to nondeductible lobbying expenditures, and the Academy is not subject to the proxy tax for lobbying and political expenditures.

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 in the financial statements. Actual results could differ from those estimates.

Cash Equivalents: For purposes of the statement of cash flows, the Academy considers cash in checking, savings and money market mutual fund accounts to be cash equivalents.

Subsequent Events Review: Subsequent events have been evaluated through April 24, 2014, which is the date the financial statements were available to be issued.

American Academy of Actuaries

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements

Long-term investments at December 31, 2013 and 2012, consisted of the following:

| | 2013 | | 2012 | |
|-----------------------------------|----------------------|----------------------|---------------------|---------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Mutual Funds: | | | | |
| American Funds Group: | | | | |
| EuroPacific Growth Fund | \$ 227,837 | \$ 483,437 | \$ 223,444 | \$ 402,358 |
| Fundamental Investors | 653,159 | 944,430 | 625,406 | 718,216 |
| Growth Fund of America | 699,304 | 947,148 | 639,836 | 707,935 |
| New Perspective Fund | 671,791 | 1,037,620 | 618,063 | 818,490 |
| Washington Mutual Investors Fund | 160,568 | 218,823 | 151,748 | 165,893 |
| Income Fund of America | 656,005 | 681,066 | 634,685 | 575,914 |
| Capital Income Builder Fund | 646,311 | 623,250 | 628,790 | 542,409 |
| Bond Fund of America | 634,834 | 605,435 | 620,644 | 617,732 |
| Eagle Funds: | | | | |
| Small-Cap Growth Fund | 579,684 | 972,997 | 567,984 | 725,504 |
| Mid-Cap Stock Fund | - | - | 627,760 | 570,185 |
| Other Funds: | | | | |
| Prudential Total Return Bond Fund | 1,054,098 | 1,015,998 | 1,019,565 | 1,028,466 |
| Prudential Mid Cap Value | 138,372 | 140,564 | - | - |
| ING GNMA Income Fund | 1,053,569 | 989,246 | 1,019,940 | 1,007,788 |
| ING Midcap Opportunities Fund | 726,925 | 745,530 | - | - |
| Lord Abbett Short Duration Inc. | 661,841 | 655,855 | - | - |
| JP Morgan Equity Income | 514,188 | 554,742 | - | - |
| JP Morgan International Value | 254,865 | 270,454 | - | - |
| JP Morgan Undiscovered Mngrs | 125,576 | 144,659 | - | - |
| JPMorgan Core Bond Fund | 1,042,278 | 1,006,799 | 1,016,724 | 1,026,734 |
| | 10,501,205 | 12,038,053 | 8,394,589 | 8,907,624 |
| Certificates of deposit | 73,100 | 73,100 | 73,100 | 73,100 |
| | \$ 10,574,305 | \$ 12,111,153 | \$ 8,467,689 | \$ 8,980,724 |

In addition, the Academy held as short-term investments certificates of deposits totaling \$2,221,000 and \$3,152,980 as of December 31, 2013 and 2012, respectively.

The Academy follows generally accepted accounting principles governing *Fair Value Measurement*. For assets and liabilities measured at fair value on a recurring basis, this requires quantitative disclosures about fair value measurements separately for each major category of assets and liabilities. These standards clarify the definition of fair value for financial reporting, establish a hierarchical disclosure framework for measuring fair value, and require additional disclosures about the use of fair value measurements. The three levels of the fair value hierarchy and their applicability to the Academy's portfolio investments are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

American Academy of Actuaries

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

- Level 2 Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.
- Level 3 Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

The following are summaries of the inputs used at December 31, 2013 and 2012, in valuing investments carried at fair value:

| | 2013 | | | |
|-----------------------------------|----------------------|---|---|---|
| | Fair Value | Quoted Price Markets For Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Certificates of deposit | \$ 2,294,100 | \$ - | \$2,294,100 | \$ - |
| Mutual funds | | | | |
| Debt focused | | | | |
| Bond Fund of America | 605,435 | 605,435 | - | - |
| Prudential Total Return Bond Fund | 1,015,998 | 1,015,998 | - | - |
| ING GNMA Income Fund | 989,246 | 989,246 | - | - |
| Lord Abbett Short Duration Inc. | 655,855 | 655,855 | - | - |
| JPMorgan Core Bond Fund | 1,006,799 | 1,006,799 | - | - |
| Equity focused | | | | |
| EuroPacific Growth Fund | 483,437 | 483,437 | - | - |
| Fundamental Investors | 944,430 | 944,430 | - | - |
| Prudential Mid Cap Value | 140,564 | 140,564 | - | - |
| ING Midcap Opportunities Fund | 745,530 | 745,530 | - | - |
| JP Morgan Equity Income | 554,742 | 554,742 | - | - |
| JP Morgan International Value | 270,454 | 270,454 | - | - |
| JP Morgan Undiscovered Mngrs | 144,659 | 144,659 | - | - |
| Growth Fund of America | 947,148 | 947,148 | - | - |
| New Perspective Fund | 1,037,620 | 1,037,620 | - | - |
| Washington Mutual Investors Fund | 218,823 | 218,823 | - | - |
| Income Fund of America | 681,066 | 681,066 | - | - |
| Capital Income Builder Fund | 623,250 | 623,250 | - | - |
| Small-Cap Growth Fund | 972,997 | 972,997 | - | - |
| | \$ 14,332,153 | \$ 12,038,053 | \$ 2,294,100 | \$ - |

American Academy of Actuaries

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

| | 2012 | | | |
|-----------------------------------|----------------------|---|---|---|
| | Fair Value | Quoted Price Markets For Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Certificates of deposit | \$ 3,226,080 | \$ - | \$3,226,080 | \$ - |
| Mutual funds | | | | |
| Debt focused | | | | |
| Bond Fund of America | 617,732 | 617,732 | - | - |
| Prudential Total Return Bond Fund | 1,028,466 | 1,028,466 | - | - |
| ING GNMA Income Fund | 1,007,788 | 1,007,788 | - | - |
| JPMorgan Core Bond Fund | 1,026,734 | 1,026,734 | - | - |
| Equity focused | | | | |
| EuroPacific Growth Fund | 402,358 | 402,358 | - | - |
| Fundamental Investors | 718,216 | 718,216 | - | - |
| Growth Fund of America | 707,935 | 707,935 | - | - |
| New Perspective Fund | 818,490 | 818,490 | - | - |
| Washington Mutual Investors Fund | 165,893 | 165,893 | - | - |
| Income Fund of America | 575,914 | 575,914 | - | - |
| Capital Income Builder Fund | 542,409 | 542,409 | - | - |
| Small-Cap Growth Fund | 725,504 | 725,504 | - | - |
| Mid-Cap Stock Fund | 570,185 | 570,185 | - | - |
| | <u>\$ 12,133,704</u> | <u>\$ 8,907,624</u> | <u>\$ 3,226,080</u> | <u>\$ -</u> |

Note 3. Furniture, Equipment and Leasehold Improvements

Furniture, equipment, and leasehold improvements at December 31, 2013 and 2012, consisted of the following:

| | 2013 | 2012 |
|--|-------------------|---------------------|
| Furniture and equipment | \$ 1,164,372 | \$ 1,133,084 |
| Leasehold improvements | 1,409,943 | 1,409,943 |
| | <u>2,574,315</u> | <u>2,543,027</u> |
| Less accumulated depreciation and amortization | 1,636,920 | 1,434,203 |
| Total | <u>\$ 937,395</u> | <u>\$ 1,108,824</u> |

Depreciation and amortization expense for the years ended December 31, 2013 and 2012, was \$208,181 and \$215,645, respectively.

Note 4. Enrolled Actuaries Meetings, Distribution of Net Revenue

The Academy and CCA share equally the net revenue from the annual Enrolled Actuaries Meeting. The Academy recognized \$112,162 and \$84,517 for its share of net revenue for the 2013 and 2012 meetings, respectively. In connection with this annual meeting, the Academy has advanced \$15,000 to CCA for meeting expenses.

American Academy of Actuaries

Notes to Financial Statements

Note 5. Casualty Loss Reserve Seminar, Distribution of Net Revenue

The Academy and CAS share equally the net revenue from the annual Casualty Loss Reserve Seminar. The Academy recognized \$114,702 and \$87,534 for its share of net revenue for the 2013 and 2012 meetings, respectively.

Note 6. Pension Plans

Through June 30, 2012, the Academy provided retirement benefits for substantially all of its employees meeting certain age and minimum service requirements through a defined contribution money purchase pension plan. Annual employer contributions under the plan were made based on a percentage of eligible employees' annual compensation.

Effective June 30, 2012, the money purchase pension plan was merged into the 401(k) retirement plan. Employee contributions are limited to a percentage of compensation as defined by the 401(k) plan with no employer matching contribution.

Total pension expense for the 401(k) plan, including administration costs and net of forfeitures was \$360,499 and \$309,236 for 2013 and 2012, respectively.

Effective January 1, 2001, the Academy adopted a defined benefit pension plan to supplement the money purchase pension plan. Effective September 30, 2010, the Academy updated the Retirement Benefit to the greater of: (1) \$360 per year of Credited Service up to a maximum of 35 years, or (2) 0.25% of "Average Annual Compensation" per year of Credited Service up to a maximum of 35 years. The following table sets forth the plan's funded status and amounts recognized in the financial statements at December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|--|-------------------------|----------------------------|
| Actuarial present value of benefit obligations | | |
| Accumulated benefit obligation, including vested benefits of \$1,262,966 and \$1,375,872 | <u>\$ (1,398,120)</u> | <u>\$ (1,492,183)</u> |
| Projected benefit obligation for service rendered to date | <u>\$ (1,430,352)</u> | <u>\$ (1,531,281)</u> |
| Plan assets at fair value | <u>1,478,729</u> | <u>1,210,533</u> |
| Plan assets (liability) of projected benefit obligation | <u>\$ 48,377</u> | <u>\$ (320,748)</u> |

Assumptions used in the actuarial calculations above were as follows at December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|---|--------------|-------------|
| Discount rate | 4.92% | 4.03% |
| Rate of increase in compensation levels | 3.00% | 3.00% |
| Expected long-term rate of return on assets | 6.75% | 6.75% |

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Notes to Financial Statements

Note 6. Pension Plans (Continued)

Net pension cost includes the following components for the years ended December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Service cost-benefits earned during the period | \$ 76,779 | \$ 67,663 |
| Interest cost on projected benefit obligation | 61,196 | 57,697 |
| Expected return on plan assets | (82,448) | (65,543) |
| Amortization of prior service cost | 6,232 | 6,232 |
| Amortization of recognized actuarial loss | 42,743 | 42,488 |
| Net pension cost | \$ 104,502 | \$ 108,537 |

Prior service costs represent the amortization of amounts previously recognized as changes in unrestricted net assets but not included in net periodic pension cost when they arose. The amount expected to be amortized into net periodic pension cost for 2014 is \$6,232.

Total amounts recognized as changes in unrestricted net assets separate from expenses and reported in the statement of activities as pension-related changes other than net periodic pension cost for the years ended December 31, 2013 and 2012, are as follows:

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|-------------------|--------------------|
| Net actuarial gain (loss) | \$ 419,179 | \$ (44,031) |
| Amortization of prior service cost | 6,232 | 6,232 |
| | \$ 425,411 | \$ (37,799) |

Amounts that have not yet been recognized as components of net periodic pension cost as of December 31, 2013 and 2012, consist of the following:

| | <u>2013</u> | <u>2012</u> |
|------------------------|-------------------|-------------------|
| Net actuarial loss | \$ 112,267 | \$ 531,446 |
| Net prior service cost | 61,123 | 67,355 |
| | \$ 173,390 | \$ 598,801 |

Assumptions used in the actuarial calculations above were as follows at December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Discount rate | 4.03% | 4.41% |
| Rate of increase in compensation levels | 3.00% | 3.00% |
| Expected long-term rate of return on assets | 6.75% | 6.75% |

Total pension expense for the defined benefit pension plan, including administration costs, was \$123,668 and \$120,006 for 2013 and 2012, respectively. Actual employer contributions were \$48,216 and \$267,735 in 2013 and 2012, respectively. There were benefit payments of \$18,480 and \$13,618 made in 2013 and 2012, respectively. Employer contributions for 2014 are expected to be \$55,000.

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Notes to Financial Statements

Note 6. Pension Plans (Continued)

Total expected benefit payments for the next ten fiscal years are as follows:

| Years Ending December 31, | |
|---------------------------|-----------|
| 2014 | \$ 35,195 |
| 2015 | 35,008 |
| 2016 | 34,360 |
| 2017 | 36,493 |
| 2018 | 55,907 |
| 2019 – 2023 | 369,296 |

The expected long-term rate of return on plan assets for 2013 and 2012 is based on a long-term inflation rate of 3.00% and an expected true rate of return of 3.75%. The composition of the plan assets at December 31, 2013 and 2012 are as follows:

| | 2013 | Percentage |
|-----------------------------|---------------------|------------|
| Equity index fund | \$ 990,748 | 67% |
| Bond index fund | 443,619 | 30% |
| Cash and money market funds | 44,362 | 3% |
| | <u>\$ 1,478,729</u> | |

| | 2012 | Percentage |
|-----------------------------|---------------------|------------|
| Equity index fund | \$ 739,468 | 61% |
| Bond index fund | 420,695 | 35% |
| Cash and money market funds | 50,370 | 4% |
| | <u>\$ 1,210,533</u> | |

The fair values of all Plan assets are based on Level 1 inputs as described in Note 2.

The Academy also has a 401(k) retirement plan for its employees. All employees meeting certain age and minimum service requirements are eligible to participate. Employee contributions are limited to a percentage of compensation as defined by the 401(k) plan with no employer matching contribution.

Note 7. Commitments

The Academy leases office space under a ten-year lease ending in 2019, with annual rent increases of 2.5% concurrent with the commencement date. The lease calls for a security deposit of \$73,100 for which the Academy has issued a letter of credit for \$73,100 that is secured by a certificate of deposit in the same amount.

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Notes to Financial Statements

Note 7. Commitments (Continued)

In addition, the Academy also has a non-cancelable operating lease for office equipment that expires in 2017. Total future minimum lease payments are as follows:

| Years Ending December 31, | |
|---------------------------|---------------------|
| 2014 | \$ 1,046,918 |
| 2015 | 1,071,681 |
| 2016 | 1,097,080 |
| 2017 | 1,123,097 |
| 2018 | 1,094,408 |
| Thereafter | 91,303 |
| | <u>\$ 5,524,487</u> |

Rental expense for office space and equipment leases for 2013 and 2012, was \$1,043,311 and \$1,055,999, respectively.

Note 8. Functional Allocation of Expenses

Expenses by functional reporting area are as follows:

| | Years Ended December 31, | |
|---|--------------------------|----------------------|
| | 2013 | 2012 |
| Programs | | |
| Actuarial Board for Counseling and Discipline | \$ 351,469 | \$ 430,480 |
| Actuarial Standards Board | 418,209 | 364,914 |
| <i>Contingencies</i> | 787,305 | 844,600 |
| Communications | 594,986 | 417,489 |
| Interorganizational liaison | 1,078,526 | 789,643 |
| Lobbying | 111,370 | 131,545 |
| Member communications | 970,099 | 939,288 |
| Organizational services | 786,091 | 721,028 |
| Public policy | 2,921,348 | 2,725,612 |
| Professionalism | 429,009 | 319,624 |
| Executive/administrative | 2,606,307 | 2,371,370 |
| Total expenses | <u>\$ 11,054,719</u> | <u>\$ 10,055,593</u> |

Note 9. Concentration of Credit Risk

The Academy possesses financial instruments that potentially subject the organization to concentrations of credit risk. The Academy maintains cash in a number of deposit accounts at one financial institution. Total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The Academy does not believe these funds are exposed to any significant credit risk.

The Academy had approximately \$1.7 million and \$2 million in money market mutual funds as of December 31, 2013 and 2012. The funds invest primarily in a portfolio of short-term U.S. Treasury securities which include repurchase agreements collateralized fully by U.S. Treasury securities. These funds are not insured by the FDIC. Because of the nature of U.S. Treasury securities, the Academy does not believe these funds are exposed to any significant credit risk.

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Notes to Financial Statements

Note 9. Concentration of Credit Risk (Continued)

The Academy maintains cash in several certificate of deposit (CD) accounts with different banks. Total CD balances are insured by the FDIC up to \$250,000 per bank. As of December 31, 2013 and 2012, all of the Academy's CD holdings were with different banks, and the total balance of CDs held at each individual bank did not exceed the balance insured by the FDIC and the CDs are therefore not exposed to any significant credit risk.

Note 10. Rental Income

The Academy previously entered into an agreement to sublease office space. Total rental income earned was \$109,383 for 2013 and 2012. Rental income to be earned in the year ending December 31, 2014, is approximately \$71,000.

Note 11. Income Taxes

Although the Academy is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code, the Academy receives unrelated business income from advertising revenue in its periodical, *Contingencies*. Total federal and state taxes on net unrelated business income for 2013 and 2012 were \$46,214 and \$56,850, respectively.

The Academy adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Academy performed an evaluation of uncertain tax positions for the year ended December 31, 2013, and determined that there were no matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of December 31, 2013, the statute of limitations for tax years 2010 through 2012 remains open with the U.S. federal jurisdiction and the various states and local jurisdictions in which the Academy files returns. It is the Academy's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in unrelated business income tax expense.