

American Academy of Actuaries

Financial Report
December 31, 2016

Contents

Independent auditor's report	1
<hr/>	
Financial statements	
Statements of financial position	2
Statements of activities	3
Statements of expenses by categories	4
Statements of changes in net assets	5
Statements of cash flows	6
Notes to financial statements	7-16



Independent Auditor's Report

RSM US LLP

To the Board of Directors
American Academy of Actuaries
Washington, D.C.

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, 2016 and 2015, 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, 2016 and 2015, 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.

RSM US LLP

Washington, D.C.
May 2, 2017

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

American Academy of Actuaries

**Statements of Financial Position
December 31, 2016 and 2015**

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,396,782	\$ 1,384,403
Certificates of deposit	2,470,000	3,211,000
Accounts receivable	413,338	313,965
Due from Casualty Actuarial Society	9,787	89,968
Due from Conference of Consulting Actuaries	15,000	15,000
Prepaid expenses	372,378	314,403
Total current assets	4,677,285	5,328,739
Long-term investments:		
Mutual funds, at fair value	14,929,794	14,071,147
Certificates of deposit	73,100	73,100
Total long-term investments	15,002,894	14,144,247
Furniture, equipment and leasehold improvements, net	553,138	756,934
Total assets	\$ 20,233,317	\$ 20,229,920
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 623,383	\$ 580,042
Accrued expenses	386,706	380,100
Accrued annual leave	126,336	117,765
Deferred revenue		
Membership dues	6,091,910	5,544,405
Other	57,279	30,382
Deferred rent liability	129,662	119,697
Total current liabilities	7,415,276	6,772,391
Deferred rent liability, long-term	169,559	299,221
Liability for pension benefits, defined benefit plan	281,190	293,168
Total liabilities	7,866,025	7,364,780
Unrestricted net assets:		
Undesignated	12,225,078	12,723,126
Designated, Actuarial Board for Counseling and Discipline Litigation Fund	142,214	142,014
Total net assets	12,367,292	12,865,140
Total liabilities and net assets	\$ 20,233,317	\$ 20,229,920

See notes to financial statements.

American Academy of Actuaries

Statements of Activities

Years Ended December 31, 2016 and 2015

	2016	2015
Revenue:		
Membership dues	\$ 9,875,084	\$ 9,830,532
Membership application fees	42,900	50,550
Investment income, net of expenses	562,268	677,030
Enrolled Actuaries Meeting distribution	103,785	67,012
Casualty Loss Reserve Seminar distribution	9,787	89,968
Seminars	445,750	241,082
Advertising income	434,467	553,483
Manual sales	193,270	186,225
Webcast income	190,733	213,503
Service fees	272,162	239,111
Administrative services	32,326	7,522
Other	208,316	128,397
Total revenue	12,370,848	12,284,415
Expenses	13,391,282	12,193,512
Change in net assets before other changes	(1,020,434)	90,903
Other changes in net assets:		
Net appreciation (depreciation) in fair value of mutual funds	310,635	(596,597)
Litigation defense expenses	-	(219,189)
Pension-related changes other than net periodic pension cost	33,951	116,153
Insurance settlement from litigation	178,000	-
Change in net assets	\$ (497,848)	\$ (608,730)

See notes to financial statements.

American Academy of Actuaries

Statements of Expenses by Categories Years Ended December 31, 2016 and 2015

	2016				2015			
	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	\$ 4,574,375	\$ 225,906	\$ 167,184	\$ 4,967,465	\$ 4,142,829	\$ 203,532	\$ 157,642	\$ 4,504,003
Employee insurance	328,858	16,241	12,021	357,120	297,782	14,630	11,331	323,743
Payroll taxes	285,233	14,086	10,426	309,745	269,916	13,260	10,271	293,447
Pension plans	459,842	22,709	16,808	499,359	438,887	21,562	16,700	477,149
Temporary help and personnel fees	68,188	-	-	68,188	180,896	-	-	180,896
Rent	943,970	46,620	34,504	1,025,094	922,215	45,307	35,092	1,002,614
Telephone	49,783	2,459	1,819	54,061	50,768	2,494	1,932	55,194
Postage and freight	18,120	2,658	3,248	24,026	17,260	2,673	1,314	21,247
Travel and related expense	175,225	72,384	72,540	320,149	190,223	70,543	65,026	325,792
Annual meeting	214,607	-	-	214,607	229,356	-	-	229,356
Academy anniversary	-	-	-	-	82,379	-	-	82,379
Seminars	408,171	-	-	408,171	149,245	-	-	149,245
Committee meetings	157,545	40,806	22,715	221,066	166,935	41,077	26,542	234,554
Presidential travel	120,984	-	-	120,984	104,080	-	-	104,080
General office supplies and equipment rental	112,034	5,533	4,095	121,662	112,634	5,534	4,286	122,454
Technology and database	324,712	16,038	11,869	352,619	129,561	6,365	4,930	140,856
Printing	27,288	8,244	1,255	36,787	23,617	4,149	1,841	29,607
Personnel development	32,567	199	-	32,766	22,021	593	-	22,614
Professional services	212,406	10,489	-	222,895	303,316	7,936	12,131	323,383
Audit and accounting	27,838	1,375	1,017	30,230	26,560	1,305	1,011	28,876
Insurance	46,513	2,298	1,700	50,511	47,887	2,353	1,822	52,062
Depreciation and amortization	241,407	11,922	8,824	262,153	199,121	9,782	7,577	216,480
Subscriptions, periodicals and dues	70,304	-	4,621	74,925	67,308	-	4,318	71,626
Communications	502,022	-	-	502,022	587,553	5,839	-	593,392
Membership/external relations programs	133,780	-	-	133,780	114,145	-	-	114,145
Affiliation fees	239,789	-	-	239,789	275,421	-	-	275,421
Contingencies	427,707	-	-	427,707	448,727	-	-	448,727
Manuals	144,023	-	-	144,023	139,927	-	-	139,927
Contribution, Actuarial Foundation	105,023	-	-	105,023	100,984	-	-	100,984
Health Practice Council	314,310	-	-	314,310	307,281	-	-	307,281
Pension Practice Council	123,274	-	-	123,274	109,004	-	-	109,004
Life Practice Council	294,415	-	-	294,415	287,005	-	-	287,005
Casualty Practice Council	299,168	-	-	299,168	117,944	-	-	117,944
Public Policy Research	17,350	-	-	17,350	-	-	-	-
Council on Professionalism	45,481	-	-	45,481	64,294	-	-	64,294
Risk Management and Financial Reporting Practice Council	56,803	-	-	56,803	23,813	-	-	23,813
International Secretary/Representatives travel	206,792	-	-	206,792	116,420	-	-	116,420
Income taxes	26,818	-	-	26,818	59,387	-	-	59,387
Bank and credit card fees	313,743	-	-	313,743	318,715	-	-	318,715
Webcast expenses	62,283	-	-	62,283	65,077	-	-	65,077
Investigative	-	-	24,299	24,299	-	-	25,682	25,682
Strategic initiatives	263,854	-	-	263,854	13,655	-	-	13,655
Other	14,966	130	669	15,765	19,644	971	367	20,982
	\$ 12,491,571	\$ 500,097	\$ 399,614	\$ 13,391,282	\$ 11,343,792	\$ 459,905	\$ 389,815	\$ 12,193,512

See notes to financial statements.

American Academy of Actuaries

**Statements of Changes in Net Assets
Years Ended December 31, 2016 and 2015**

	Unrestricted	Designated	Total
Unrestricted net assets, December 31, 2014	\$ 13,331,870	\$ 142,000	\$ 13,473,870
Change in net assets	(608,744)	14	(608,730)
Unrestricted net assets, December 31, 2015	12,723,126	142,014	12,865,140
Change in net assets	(498,048)	200	(497,848)
Unrestricted net assets, December 31, 2016	\$ 12,225,078	\$ 142,214	\$ 12,367,292

See notes to financial statements.

American Academy of Actuaries

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (497,848)	\$ (608,730)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	262,153	216,480
Net (appreciation) depreciation in fair value of mutual funds	(310,635)	596,597
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(99,373)	(7,357)
Due from Casualty Actuarial Society	80,181	(37,425)
Prepaid expenses	(57,975)	(99,405)
Increase (decrease) in:		
Accounts payable and accrued expenses	49,947	132,998
Pension-related liabilities	(11,978)	(73,820)
Accrued annual leave	8,571	(2,422)
Deferred membership dues	547,505	400,590
Other deferred revenue	26,897	(7,765)
Deferred rent liability	(119,697)	(62,112)
Net cash (used in) provided by operating activities	(122,252)	447,629
Cash flows from investing activities:		
Purchases of furniture and equipment	(58,357)	(135,587)
Proceeds from maturities of certificates of deposit	4,199,000	3,952,000
Purchases of certificates of deposit	(3,458,000)	(5,187,000)
Purchases of mutual funds and reinvested earnings	(548,012)	(667,303)
Net cash provided by (used in) investing activities	134,631	(2,037,890)
Net increase (decrease) in cash and cash equivalents	12,379	(1,590,261)
Cash and cash equivalents:		
Beginning of year	1,384,403	2,974,664
End of year	\$ 1,396,782	\$ 1,384,403
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	\$ 60,000	\$ 70,858

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, 2016 and 2015. The Academy's unrestricted net assets as of December 31, 2016 and 2015, 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 2016 and 2015. 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)

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

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 from three to ten years.

Revenue recognition: Revenue from membership dues is recognized over the applicable membership period. Memberships not yet recognized at December 31 are in deferred revenue – membership dues. Meeting registration fees, subscriptions, and other fees and services are recognized as revenue as services are provided. Advertising income is recognized as revenue at the time of publication.

Service fees are assessed to other actuarial organizations (ASPPA, CAS, CCA, and SOA) 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 2016 and 2015, 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.

Pending accounting pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018.

American Academy of Actuaries

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied.

Reclassification: An item in the December 31, 2015, financial statements has been reclassified to comply with the current year presentation. The reclassification had no effect on previously reported net assets or change in net assets.

Subsequent events review: Subsequent events have been evaluated through May 2, 2017, which is the date the financial statements were available to be issued.

Note 2. Investments and Fair Value Measurements

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.

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 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.

American Academy of Actuaries

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

The following are summaries of the inputs used at December 31, 2016 and 2015, in valuing investments carried at fair value:

	2016			
	Fair Value	Quoted Price Markets For Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 2,543,100	\$ -	\$ 2,543,100	\$ -
Mutual funds:				
Debt focused:				
Bond Fund of America	656,600	656,600	-	-
Prudential Total Return Bond Fund	1,131,784	1,131,784	-	-
Lord Abbett Short Duration Inc.	1,993,829	1,993,829	-	-
JPMorgan Core Bond Fund	1,088,029	1,088,029	-	-
Mortgage Fund of America	1,062,734	1,062,734	-	-
Equity focused:				
EuroPacific Growth Fund	798,615	798,615	-	-
Fundamental Investors	997,592	997,592	-	-
Prudential Mid Cap Value	182,549	182,549	-	-
ING Midcap Opportunities Fund	862,786	862,786	-	-
JP Morgan Equity Income	705,502	705,502	-	-
JP Morgan International Value	238,288	238,288	-	-
JP Morgan Undiscovered Mngrs	188,873	188,873	-	-
Growth Fund of America	989,121	989,121	-	-
New Perspective Fund	1,149,397	1,149,397	-	-
Washington Mutual Investors Fund	275,544	275,544	-	-
Income Fund of America	804,257	804,257	-	-
Capital Income Builder Fund	689,544	689,544	-	-
Small-Cap Growth Fund	1,114,750	1,114,750	-	-
	<u>\$ 17,472,894</u>	<u>\$ 14,929,794</u>	<u>\$ 2,543,100</u>	<u>\$ -</u>

American Academy of Actuaries

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

	2015			
	Fair Value	Quoted Price Markets For Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 3,284,100	\$ -	\$ 3,284,100	\$ -
Mutual funds:				
Debt focused:				
Bond Fund of America	638,964	638,964	-	-
Prudential Total Return Bond Fund	1,081,022	1,081,022	-	-
ING GNMA Income Fund	1,054,603	1,054,603	-	-
Lord Abbett Short Duration Inc.	1,916,833	1,916,833	-	-
JPMorgan Core Bond Fund	1,065,686	1,065,686	-	-
Equity focused:				
EuroPacific Growth Fund	793,349	793,349	-	-
Fundamental Investors	886,442	886,442	-	-
Prudential Mid Cap Value	150,773	150,773	-	-
ING Midcap Opportunities Fund	807,598	807,598	-	-
JP Morgan Equity Income	615,511	615,511	-	-
JP Morgan International Value	233,589	233,589	-	-
JP Morgan Undiscovered Mngrs	156,930	156,930	-	-
Growth Fund of America	912,010	912,010	-	-
New Perspective Fund	1,128,373	1,128,373	-	-
Washington Mutual Investors Fund	242,973	242,973	-	-
Income Fund of America	727,330	727,330	-	-
Capital Income Builder Fund	645,027	645,027	-	-
Small-Cap Growth Fund	1,014,134	1,014,134	-	-
	<u>\$ 17,355,247</u>	<u>\$ 14,071,147</u>	<u>\$ 3,284,100</u>	<u>\$ -</u>

Note 3. Furniture, Equipment and Leasehold Improvements

Furniture, equipment, and leasehold improvements at December 31, 2016 and 2015, consisted of the following:

	2016	2015
Furniture and equipment	\$ 1,198,528	\$ 1,202,153
Leasehold improvements	1,414,159	1,414,159
	<u>2,612,687</u>	<u>2,616,312</u>
Less accumulated depreciation and amortization	2,059,549	1,859,378
Total	<u>\$ 553,138</u>	<u>\$ 756,934</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015, was \$262,153 and \$216,480, respectively.

American Academy of Actuaries

Notes to Financial Statements

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 \$103,785 and \$67,012 for its share of net revenue for the 2016 and 2015 meetings, respectively. In connection with this annual meeting, the Academy has advanced \$15,000 to CCA for meeting expenses.

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 \$9,787 and \$89,968 for its share of net revenue for the 2016 and 2015 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. 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.

Total pension expense for the 401(k) plan, including administration costs and net of forfeitures, was \$376,640 and \$341,908 for 2016 and 2015, respectively.

On 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, 2016 and 2015:

	2016	2015
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$1,904,015 and \$1,731,887	\$ (2,095,849)	\$ (1,909,987)
Projected benefit obligation for service rendered to date	\$ (2,153,547)	\$ (1,963,820)
Plan assets at fair value	1,872,357	1,670,652
Funded status at end of year	\$ (281,190)	\$ (293,168)

American Academy of Actuaries

Notes to Financial Statements

Note 6. Pension Plans (Continued)

Assumptions used in the actuarial calculations above were as follows at December 31, 2016 and 2015:

	2016	2015
Discount rate	4.11%	4.32%
Rate of increase in compensation levels	3.00%	3.00%
Expected long-term rate of return on assets	6.75%	6.75%

Net pension cost includes the following components for the years ended December 31, 2016 and 2015:

	2016	2015
Service cost-benefits earned during the period	\$ 98,218	\$ 102,221
Interest cost on projected benefit obligation	84,363	77,818
Expected return on plan assets	(113,861)	(109,861)
Amortization of prior service cost	6,232	6,232
Amortization of recognized actuarial loss	27,381	38,348
Net pension cost	<u>\$ 102,333</u>	<u>\$ 114,758</u>

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 of prior service cost expected to be amortized into net periodic pension cost for 2017 is \$6,232. The amount of net actuarial loss expected to be amortized into net periodic pension cost for 2017 is \$22,747.

Total amounts recognized as changes in unrestricted net assets separate from expenses and reported in the statements of activities as pension-related changes other than net periodic pension cost for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Net actuarial gain	\$ 27,719	\$ 109,921
Amortization of prior service cost	6,232	6,232
	<u>\$ 33,951</u>	<u>\$ 116,153</u>

Amounts that have reduced net assets yet have not yet been recognized as components of net periodic pension cost as of December 31, 2016 and 2015, consist of the following:

	2016	2015
Net actuarial loss	\$ 407,753	\$ 435,472
Net prior service cost	42,427	48,659
	<u>\$ 450,180</u>	<u>\$ 484,131</u>

American Academy of Actuaries

Notes to Financial Statements

Note 6. Pension Plans (Continued)

Assumptions used in the actuarial calculations above were as follows at December 31, 2016 and 2015:

	2016	2015
Discount rate	4.32%	3.95%
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 \$122,719 and \$135,241 for 2016 and 2015, respectively. Actual employer contributions were \$80,360 and \$72,425 in 2016 and 2015, respectively. There were benefit payments of \$25,180 and \$24,691 made in 2016 and 2015, respectively. Employer contributions for 2017 are expected to be \$85,000.

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

Years ending December 31:	
2017	\$ 27,503
2018	46,584
2019	60,628
2020	62,304
2021	61,760
2022 – 2026	514,266

The expected long-term rate of return on plan assets for 2016 and 2015 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, 2016 and 2015, are as follows:

	2016	Percentage
Equity index fund	\$ 1,179,958	63%
Bond index fund	666,767	36%
Cash and money market funds	25,632	1%
	<u>\$ 1,872,357</u>	

	2015	Percentage
Equity index fund	\$ 1,033,324	62%
Bond index fund	611,742	36%
Cash and money market funds	25,586	2%
	<u>\$ 1,670,652</u>	

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

American Academy of Actuaries

Notes to Financial Statements

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.

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:	
2017	\$ 1,123,137
2018	1,093,408
2019	91,303
	<u>\$ 2,307,848</u>

Rental expense for office space and equipment leases for 2016 and 2015, was \$1,100,877 and \$1,077,500, respectively.

Note 8. Functional Allocation of Expenses

Expenses by functional reporting area are as follows:

	Years Ended December 31	
	2016	2015
Programs:		
Actuarial Board for Counseling and Discipline	\$ 399,614	\$ 389,815
Actuarial Standards Board	500,097	459,905
Contingencies	695,108	765,169
Communications	1,012,503	1,056,091
Interorganizational liaison	1,044,361	981,565
Lobbying	151,035	142,514
Member communications	1,242,478	1,102,145
Organizational services	1,155,554	887,557
Public policy	3,648,620	3,052,241
Professionalism	567,537	544,270
Strategic Initiatives	263,854	13,655
Executive/administrative	2,710,521	2,798,585
Total expenses	<u>\$ 13,391,282</u>	<u>\$ 12,193,512</u>

American Academy of Actuaries

Notes to Financial Statements

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 \$173,000 and \$200,000 in money market mutual funds as of December 31, 2016 and 2015. 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.

The Academy maintains 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, 2016 and 2015, 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. 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 2016 and 2015 were \$26,818 and \$59,387, respectively.

The Academy adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification (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 de-recognition 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, 2016, 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. 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.