

American Society for Eighteenth Century Studies

Report on Financial Statements

For the year ended June 30, 2014

American Society for Eighteenth Century Studies

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Independent Auditor's Report

Board of Directors
American Society for Eighteenth Century Studies
Winston-Salem, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of American Society for Eighteenth Century Studies (the Society), which comprise the statement of assets, liabilities and net assets - modified cash basis as of June 30, 2014, and the related statements of revenues, support, and expenses - modified cash basis and cash flows - modified cash basis for the year 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit. We conducted our audit 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 of 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 the Society as of June 30, 2014, and the changes in net assets and cash flows for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Elliott Davis, PLLC

Columbia, South Carolina
January 20, 2015

American Society for Eighteenth Century Studies

Statement of Assets, Liabilities and Net Assets - Modified Cash Basis

June 30, 2014

	<u>2014</u>
Assets	
<i>Current assets</i>	
Cash and cash equivalents	\$ 38,222
Investments	1,317,834
Total assets	<u>\$ 1,356,056</u>
Liabilities and Net Assets	
<i>Current liabilities</i>	
Funds held for others	\$ 34,064
Accrued payroll	7,282
Total liabilities	<u>41,346</u>
<i>Net assets</i>	
Unrestricted	
Board designated net assets	76,484
Other unrestricted net assets	752,795
Total unrestricted net assets	<u>829,279</u>
Temporarily restricted	231,068
Permanently restricted	254,363
Total net assets	<u>1,314,710</u>
Total liabilities and net assets	<u>\$ 1,356,056</u>

See Notes to Financial Statements

American Society for Eighteenth Century Studies

Statement of Revenues, Support, and Expenses - Modified Cash Basis

For the year ended June 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support				
Dues	\$ 146,991	\$ -	\$ -	\$ 146,991
Annual meeting	136,005	-	-	136,005
Interest and dividends	15,021	7,914	-	22,935
Net gain on sales of investments	30,577	44,817	-	75,394
Royalties	46,756	-	-	46,756
Contributions	4,850	-	13,450	18,300
Miscellaneous	132	-	-	132
Net assets released from restrictions	4,350	(4,350)	-	-
Total revenues and other support	<u>384,682</u>	<u>48,381</u>	<u>13,450</u>	<u>446,513</u>
Expenses				
Operating expenses				
Salary and benefits	73,944	-	-	73,944
Commissions to Johns Hopkins University Press	31,502	-	-	31,502
Board meetings	9,575	-	-	9,575
ISECS representative expense(s)	7,453	-	-	7,453
Dues and subscriptions	5,897	-	-	5,897
Travel and entertainment	5,432	-	-	5,432
Telephone	2,585	-	-	2,585
Steering committee	2,390	-	-	2,390
Professional fees	18,109	-	-	18,109
Affiliate Society Coordinator	4,082	-	-	4,082
Miscellaneous	1,446	-	-	1,446
Total operating expenses	<u>162,415</u>	<u>-</u>	<u>-</u>	<u>162,415</u>
Publications expenses				
Eighteenth Century Studies	37,690	-	-	37,690
Postage	3,940	-	-	3,940
Studies in Eighteenth Century Culture	2,500	-	-	2,500
Total publications expenses	<u>44,130</u>	<u>-</u>	<u>-</u>	<u>44,130</u>
Other expenses				
Annual meeting	107,063	-	-	107,063
Fellowship program	26,100	-	-	26,100
Awards	6,250	-	-	6,250
Travel grants	6,000	-	-	6,000
Women's caucus	330	-	-	330
Total other expenses	<u>145,743</u>	<u>-</u>	<u>-</u>	<u>145,743</u>
Total expenses	<u>352,288</u>	<u>-</u>	<u>-</u>	<u>352,288</u>
Change in net assets	32,394	48,381	13,450	94,225
Net assets, beginning of year	796,885	182,687	240,913	1,220,485
Net assets, end of year	<u>\$ 829,279</u>	<u>\$ 231,068</u>	<u>\$ 254,363</u>	<u>\$ 1,314,710</u>

See Notes to Financial Statements

American Society for Eighteenth Century Studies**Statement of Cash Flows - Modified Cash Basis****For the year ended June 30, 2014**

Cash flows from operating activities

Change in net assets	\$ 94,225
Adjustments to reconcile the change in net assets to net cash used for operating activities	
Realized gains on sales of investments	(75,394)
Reinvested dividends and interest	(22,935)
Payroll withholdings	(5,650)
Net cash used for operating activities	<u>(9,754)</u>

Investing activities

Proceeds from sales of investments	263,992
Investment purchases	<u>(263,719)</u>
Net cash provided by investing activities	<u>273</u>

Change in cash and cash equivalents**(9,481)****Cash and cash equivalents, beginning of year****47,703****Cash and cash equivalents, end of year****\$ 38,222****See Notes to Financial Statements**

American Society for Eighteenth Century Studies

Notes to Financial Statements

For the year ended June 30, 2014

Note 1. Summary of Significant Accounting Policies

Organization:

The American Society for Eighteenth Century Studies (the Society) was formed for the encouragement and advancement of studies and research in the history of eighteenth century culture. The Society promotes the exchange of information and ideas among members of the various scholarly disciplines engaged in eighteenth century studies through inter-disciplinary meetings, publications, joint research, and other means it may deem appropriate. Specific activities include quarterly publications of the journal *Eighteenth Century Studies* (the Journal), an annual publication of *Studies in Eighteenth Century Culture*, and an annual meeting.

Basis of accounting:

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis, most non-cash transactions are not recognized. The modified cash basis differs from accounting principles generally accepted in the United States of America primarily because revenue and related assets are recognized when received rather than when earned and expenses are recorded when paid rather than when the expense is incurred. Investments are also recognized based on net cash invested, less cash returned through sales, dividends and interest rather than at their fair market value. Payroll withholdings and accruals are recognized as liabilities until paid.

Tax status:

The Society is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal taxes. Management is unaware of any situation or circumstance that would cause the Society to lose its tax-exempt status.

Management is not aware of any material uncertain tax positions at June 30, 2014. Any interest or penalties associated with unrecognized tax expense would be classified as an additional expense in the statement of revenues, support, and expenses. The Society is no longer subject to examination by the Internal Revenue Service or any state jurisdictions for years prior to 2010.

Financial statement presentation:

The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Investments:

The Society's investments in securities are stated at cost.

Statement of cash flows:

For purposes of the statement of cash flows, the Society considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

American Society for Eighteenth Century Studies

Notes to Financial Statements

For the year ended June 30, 2014

Note 1. Summary of Significant Accounting Policies, Continued

Contributions:

Cash contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Temporarily restricted net assets represent amounts received with donor imposed restrictions on the purposes for which the amounts may be used. These amounts must be expended in their entirety for the purposes specified by the donor. Permanently restricted net assets are those amounts received with donor imposed restrictions requiring that the corpus be maintained into perpetuity and that the income be expended for stated purposes.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires or is met in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets.

Subsequent events:

These financial statements have not been updated for subsequent events after January 20, 2015 the date the financial statements were available to be issued.

Note 2. Risks and Uncertainties

The Society may invest, through mutual funds, in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Note 3. Investments

Investments consist of the following at June 30, 2014:

	<u>Cost</u>	<u>Market</u>
Equity Funds		
Equity growth funds	\$ 356,417	\$ 450,937
Equity value funds	71,667	89,763
Equity blended funds	397,309	498,475
Bond Funds		
High yield bond funds	64,968	66,719
Multi-sector bond funds	19,337	21,197
Intermediate term bond funds	325,551	340,686
Ultra-short term bond funds	31,633	31,633
Short-term bond funds	50,952	51,575
	<u>\$ 1,317,834</u>	<u>\$ 1,550,985</u>

American Society for Eighteenth Century Studies

Notes to Financial Statements

For the year ended June 30, 2014

Note 3. Investments, Continued

These investments are subject to market fluctuations that may affect their fair market values. The following schedule summarizes the investment return and its classification in the statement of revenues, support, and expenses for the year ended June 30, 2014.

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Gain on sales of investments	\$ 30,577	\$ 44,817	\$ 75,394
Interest income	10	4	14
Dividend income	<u>15,011</u>	<u>7,910</u>	<u>22,921</u>
Total investment return	<u>\$ 45,598</u>	<u>\$ 52,731</u>	<u>\$ 98,329</u>

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2014.

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
Mutual funds:						
Bond funds	\$ -	\$ -	\$ 35,841	\$ (591)	\$ 35,841	\$ (591)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,841</u>	<u>\$ (591)</u>	<u>\$ 35,841</u>	<u>\$ (591)</u>

The Society has adopted accounting standards for their financial assets and liabilities that clarify fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Although having adopted these standards had no material impact on its statement of assets, liabilities and net assets - modified cash basis, statement of revenues, support, and expenses - modified cash basis or cash flows - modified cash basis, the Society is required to provide additional disclosures. The Society utilizes market data or assumptions that market participants would use in pricing the asset or liability for the purpose of disclosing fair values. The standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. Prices for the Society's investment securities as disclosed above are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1.

Note 4. Funds Held For Others

Funds held for others consist of assets invested on behalf of SASECS (Southeastern American Society for Eighteenth Century Studies) and WSECS (Western Society for Eighteenth Century Studies). The Society invested these funds in the Society's pool of investments and allocates the related share of investment income (loss) and dividends and interest earned on these funds to the SASECS and the WSECS's respective accounts. The amounts held on behalf of SASECS and WSECS totaled \$27,411 and \$6,653, respectively. Investment income (loss) and dividends and interest allocated to the SASECS and the WSECS's accounts totaled \$3,347 and \$591, respectively, for the year ended June 30, 2014.

American Society for Eighteenth Century Studies

Notes to Financial Statements

For the year ended June 30, 2014

Note 5. Endowments

The Society's Endowment Fund consists of 15 individual funds established for educational, research and award purposes. It includes donor-restricted contributions, including named scholarships and voluntary dues from individual members of the Society. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

The Board of Directors of the Society has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Society and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Society
- (7) The investment policies of the Society

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (31,731)	\$ 231,068	\$ 254,363	\$ 453,700

The \$31,731 deficit in unrestricted net assets represents the amounts by which the cost basis of certain donor-restricted endowment funds were below the amount required to be retained permanently.

American Society for Eighteenth Century Studies

Notes to Financial Statements

For the year ended June 30, 2014

Note 5. Endowments, Continued

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (28,570)	\$ 182,687	\$ 240,913	\$ 395,030
Investment return:				
Investment income (loss)	(99)	7,914	-	7,815
Net appreciation (depreciation) realized	(562)	44,817	-	44,255
Total investment return (loss)	(661)	52,731	-	52,070
Contributions	-	-	13,450	13,450
Appropriation of endowment assets for expenditure	(2,500)	(4,350)	-	(6,850)
Endowment net assets, end of year	\$ (31,731)	\$ 231,068	\$ 254,363	\$ 453,700

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$31,731 as of June 30, 2014. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

Return objectives and risk parameters:

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce investment returns at least equal to inflation (Consumer Price Index) plus 5.0% while assuming a moderate level of investment risk.

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

American Society for Eighteenth Century Studies

Notes to Financial Statements

For the year ended June 30, 2014

Note 5. Endowments, Continued

Spending policy and how the investment objectives relate to spending policy:

The Society has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 16 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its endowments. Accordingly, over the long term, the Society expects the current spending policy to allow its endowments to grow at least equal to inflation. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 6. Restrictions on Net Assets

Substantially all of the restrictions on net assets at June 30, 2014 are related to funds raised through the Capital Campaign. Funds raised through the Capital Campaign are restricted to support the research and study of the eighteenth century.

Permanently restricted net assets consist of funds of which the corpus has been restricted by the donor. The income is to be used for various grants, awards, and prizes.

Note 7. Significant Contractual Agreement

The Society is provided services under a contractual agreement with the Johns Hopkins University Press (JHUP). Membership dues are collected by the JHUP and forwarded to the Society less a commission for collection services and for printing and publishing the Society's Journal.

Note 8. Related Parties

The Society has a number of affiliates and related organizations who are allowed certain rights, including the opportunity to publish papers in *Studies in Eighteenth Century Culture*, the Society's annual journal; use of the Society's mailing labels, and the right to hold a seminar at the annual meeting. There were no direct transactions with related parties during the year ended June 30, 2014.