

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

FINANCIAL STATEMENTS

September 30, 2018 and 2017

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5-6
Notes to Financial Statements	7-19



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
American Association of Variable Star Observers
Cambridge, Massachusetts

R.J. GOLD & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Report on the Financial Statements

We have audited the accompanying financial statements of American Association of Variable Star Observers (a nonprofit organization), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities 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.

Auditors' 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 audits 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 Association of Variable Star Observers as of September 30, 2018 and 2017, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

R. J. Gold & Company, P.C.
Burlington, Massachusetts
December 6, 2018

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 798,883	\$ 564,624
Prepaid expenses	5,223	7,646
Investments	<u>12,903,911</u>	<u>13,066,896</u>
TOTAL CURRENT ASSETS	<u>13,708,017</u>	<u>13,639,166</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	<u>1,265,009</u>	<u>1,320,326</u>
TOTAL ASSETS	<u>\$ 14,973,026</u>	<u>\$ 14,959,492</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 45,759	\$ 26,613
Prepaid membership dues and meetings	<u>53,299</u>	<u>27,342</u>
TOTAL CURRENT LIABILITIES	<u>99,058</u>	<u>53,955</u>
LONG TERM LIABILITIES		
Security deposit and last month's rent	<u>8,332</u>	<u>8,332</u>
NET ASSETS		
Unrestricted	11,296,460	11,319,002
Temporarily restricted	201,382	212,159
Permanently restricted	<u>3,367,794</u>	<u>3,366,044</u>
TOTAL NET ASSETS	<u>14,865,636</u>	<u>14,897,205</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,973,026</u>	<u>\$ 14,959,492</u>

The Accompanying Notes are an Integral Part of These Financial Statements

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CHANGES IN UNRESTRICTED NET ASSETS		
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT		
Contributions and grants	\$ 199,382	\$ 79,915
Investment interest and dividends	1,223,671	173,361
Membership dues and fees	76,649	79,938
Sales of publications and related materials	9,941	9,324
Meeting fees	22,149	26,065
Annex rent	50,000	29,167
Unrealized gains (losses) on available-for-sale securities	(911,973)	1,185,758
Gain on sale of investments	338,680	157,538
	<u>1,008,499</u>	<u>1,741,066</u>
Net assets released from restrictions	26,103	189,289
TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT	<u>1,034,602</u>	<u>1,930,355</u>
EXPENSES		
Program services-research, data collection, publication and meetings	630,347	545,458
General and administrative	403,539	383,438
Fundraising	23,258	14,097
TOTAL EXPENSES	<u>1,057,144</u>	<u>942,993</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(22,542)</u>	<u>987,362</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	8,275	103,884
Investment interest and dividends	14,542	2,780
Unrealized gains (losses) on available-for-sale securities	(11,916)	-
Gain on sale of investments	4,425	2,527
Assets released from program restrictions	(26,103)	(189,289)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(10,777)</u>	<u>(80,098)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,750	1,225
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>1,750</u>	<u>1,225</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(31,569)</u>	<u>908,489</u>
NET ASSETS - BEGINNING OF YEAR	<u>14,897,205</u>	<u>13,988,716</u>
NET ASSETS - END OF YEAR	<u>\$ 14,865,636</u>	<u>\$ 14,897,205</u>

The Accompanying Notes are an Integral Part of These Financial Statements

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS
STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (31,569)	\$ 908,489
Adjustments to reconcile change in net assets to cash provided (used) for operating activities:		
Depreciation expense	52,873	62,434
Loss from disposal of fixed assets	2,444	1,742
Gain on sale of investments	(343,105)	(160,065)
Unrealized (gains) losses on available-for-sale securities	923,889	(1,185,758)
(Increase) decrease in assets:		
Prepaid expenses	2,423	2,135
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	19,146	(12,564)
Prepaid membership dues and meetings	25,957	316
	652,058	(383,271)
CASH PROVIDED (USED) FOR OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of marketable securities	(10,827,392)	(2,048,620)
Sales of marketable securities	10,409,593	2,538,700
Purchase of fixed assets	-	(6,386)
	(417,799)	483,694
CASH PROVIDED (USED) FOR INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	234,259	100,423
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	564,624	464,201
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 798,883	\$ 564,624

The Accompanying Notes are an Integral Part of These Financial Statements

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2018

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Accounting and professional services	\$ 35,951	\$ 21,217	\$ 1,768	\$ 58,936
Banking and investment fees	3,503	111,610	2,147	117,260
Computer and internet	6,448	3,805	317	10,570
Contract services	135,240	2,366	97	137,703
Depreciation	32,253	19,034	1,586	52,873
Dues, subscriptions and licenses	6,702	3,955	330	10,987
Employee benefit related expenses	53,069	43,320	2,610	98,999
Insurance	7,922	4,675	390	12,987
Meetings and travel	38,106	25,404	-	63,510
Office	6,863	4,050	338	11,251
Payroll and related expenses	255,742	148,006	12,334	416,082
Postage and printing	4,754	2,392	199	7,345
Repair and maintenance	15,069	8,893	741	24,703
Telephone and utilities	8,154	4,812	401	13,367
Telescope rental fees and supplies	20,571	-	-	20,571
	<u>\$ 630,347</u>	<u>\$ 403,539</u>	<u>\$ 23,258</u>	<u>\$ 1,057,144</u>
TOTAL EXPENSES	<u>\$ 630,347</u>	<u>\$ 403,539</u>	<u>\$ 23,258</u>	<u>\$ 1,057,144</u>

See auditor's report and accompanying notes to financial statements.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2017

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Accounting and professional services	\$ 692	\$ 40,305	\$ -	\$ 40,997
Banking and investment fees	4,645	52,529	1,548	58,722
Computer and internet	5,131	7,143	513	12,787
Contract services	119,552	13,022	1,467	134,041
Depreciation	34,963	27,471	-	62,434
Dues, subscriptions and licenses	-	6,172	-	6,172
Employee benefit related expenses	53,950	40,463	1,927	96,340
Insurance	5,644	4,233	202	10,079
Meetings and travel	33,048	22,389	1,048	56,485
Office	4,345	3,808	155	8,308
Payroll and related expenses	242,999	148,466	7,070	398,535
Postage and printing	4,762	4,891	167	9,820
Repair and maintenance	6,508	6,838	-	13,346
Telephone and utilities	7,265	5,708	-	12,973
Telescope rental fees and supplies	21,954	-	-	21,954
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 545,458</u>	<u>\$ 383,438</u>	<u>\$ 14,097</u>	<u>\$ 942,993</u>

See auditor's report and accompanying notes to financial statements.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

Organization and Purpose

The American Association of Variable Star Observers is an international non-profit organization established in 1911 under the laws of the Commonwealth of Massachusetts, whose mission is to observe and analyze variable stars, collect and archive observations for worldwide access, forge strong collaborations between amateur and professional astronomers, and promote scientific research and education using variable star data.

Basis of Accounting

The financial statements of the American Association of Variable Star Observers have been prepared on the accrual basis of accounting.

Financial Statement Presentation

The American Association of Variable Star Observers complies with Professional Standards for Financial Statements of Not-For-Profit Organizations issued by the Financial Accounting Standards Board "FASB" for presentation of its financial statements. As such, the financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets.

Use of Estimates

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

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Investments

The Association follows Professional Standards, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under these professional standards, investments in marketable securities with readily determinable fair market values and all investments in debt securities are valued at their fair market values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities and Changes in Net Assets. The Association reports all investment gains and losses and income as increases or decreases in unrestricted net assets, unless a donor or law restricts their use.

Investment Pooling

Endowments, certain unrestricted net assets, grants, gifts and other contributions restricted by donors as to use are pooled together for investment purposes and accounted for on a pro rata basis. The income generated from the investments is classified as unrestricted or temporarily restricted according to the donors' instructions.

Cash and Cash Equivalents

The Association considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Compensated Absences

The Association accrues paid time off based on the actual hours worked by employees throughout the year. Employees may carry a balance of up to 140 accrued hours to a subsequent year. These hours may be used for vacation, holiday and/or sick leave.

Accrued compensated absences were \$11,985 and \$8,587 as of September 30, 2018 and 2017, respectively.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Real estate, equipment and furniture and fixtures, stated at cost, are being depreciated over estimated useful lives of 3 to 39 years principally using the straight line method. Major additions and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale.

Long-lived assets held and used by the Association are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

Income Taxes

The Association is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes.

Contributed Services

No amounts have been reflected in the financial statements for donated services. During the year many individuals volunteered their time and performed a variety of tasks that assist the Association in its research. However, these services do not meet the criteria for recognition as contributed services.

Newly Enacted Accounting Standard

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The new standard replaces the current three-category classification of net assets with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". The standard also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, the standard will also require the financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among programs and support functions. The standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE B - INVESTMENTS

As of September 30, 2018, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>
Corporate equities	\$ 9,008,754	\$ 9,163,406
Corporate bonds	167,122	161,886
Alternative investments	2,092,348	2,095,581
Mutual funds	<u>1,534,176</u>	<u>1,483,038</u>
Total	<u>\$12,802,400</u>	<u>\$12,903,911</u>

As of September 30, 2017, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>
Corporate equities	\$ 3,983,093	\$ 4,569,589
Corporate bonds	70,044	70,874
Government securities	1,024,049	978,820
Mutual funds	<u>7,481,413</u>	<u>7,447,613</u>
Total	<u>\$12,558,599</u>	<u>\$13,066,896</u>

The following schedule summarizes the investment return and its classification in the statement of activities:

September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividend and interest income	\$ 1,223,671	\$ 14,542	\$ -	\$ 1,238,213
Realized gain on investments	338,680	4,425	-	343,105
Unrealized gains (losses)	(911,973)	(11,916)	-	(923,889)
	<u>\$ 650,378</u>	<u>\$ 7,051</u>	<u>\$ -</u>	<u>\$ 657,429</u>

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE B – INVESTMENTS (continued)

September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividend and interest income	\$ 173,361	\$ 2,780	\$ -	\$ 176,141
Realized gain on investments	157,538	2,527	-	160,065
Unrealized gains on investments	1,185,758	-	-	1,185,758
	<u>\$ 1,516,657</u>	<u>\$ 5,307</u>	<u>\$ -</u>	<u>\$ 1,521,964</u>

NOTE C - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at September 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Janet Mattei Fellowship	\$ 108,998	\$ 102,513
Margaret Mayall Assistantship	46,743	48,469
RM Ayers Fund Grant for Second Generation Synoptic Survey	-	1,746
RM Ayers Fund Grant for APASS	-	4,500
Support of AAVSONet	21,868	25,218
Dunham Foundation Grant	-	2,485
Research Corporation for Science Advancement	-	4,955
Director Discretionary Funds	<u>23,773</u>	<u>22,273</u>
	<u>\$ 201,382</u>	<u>\$ 212,159</u>

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE D - NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor and grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors and grantors for the years ending September 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
NSF APASS	\$ -	\$ 85,950
APASS Ayers	6,246	500
Observatory and Telescope Systems	-	5,000
Other Education and Research	-	9,482
Mattei Fellow and Mayall Assistant	4,801	21,000
Director Discretionary Funds	-	896
Research Corporation for Science Advancement	-	45,045
Fred Walters Project	-	6,500
Ed Scion	-	8,855
Scialog	4,955	-
Dunham Foundation	2,485	2,847
Support of AAVSONet	<u>7,616</u>	<u>3,214</u>
	<u>\$ 26,103</u>	<u>\$ 189,289</u>

NOTE E - EMPLOYEE RETIREMENT PLAN

The Association maintains a tax sheltered annuity plan under Section 401(k) of the Internal Revenue Code for the benefit of all electing employees. The Association matches employee deferrals up to 5% of compensation. For the years ended September 30, 2018 and 2017, the Association contributed \$25,109 and \$16,240, respectively, as matching contributions.

NOTE F - CONCENTRATION OF CREDIT RISK

The Association maintains cash balances at a financial institution located in Massachusetts. This account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Association also holds accounts temporarily as part of the long term investment portfolio not insured by the FDIC. Those are insured by the Securities Investor Protection Corporation (SIPC) which covers securities up to \$500,000 and cash balances up to \$250,000. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant risk with respect to cash. The balances of these accounts as of September 30, 2018 and 2017 are as follows:

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE F - CONCENTRATION OF CREDIT RISK (continued)

	<u>2018</u>	<u>2017</u>
Cash in Banks	\$ 290,322	\$ 300,144
Temporary Cash Investment Accounts	<u>508,561</u>	<u>264,480</u>
	<u>\$ 798,883</u>	<u>\$ 564,624</u>

NOTE G - FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

The Association's financial instruments, none of which are held for trading purposes, include cash and investments. The estimated fair market value amounts have been determined by the Association using available market information and appropriate valuation methodologies. The Association's investments of \$13,412,472 and \$13,331,376, as of September 30, 2018 and 2017, respectively, are all publicly traded and are valued at public market quotations. Included in these amounts are temporary cash investment accounts of \$508,561 and \$264,480 as of September 30, 2018 and 2017, respectively, as mentioned in Note F.

The American Association of Variable Star Observers complies with Professional Standards, Fair Value Measurements. This Professional Standard requires that the Association measure its financial instruments at fair market value. Fair market value standards require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs to determine value. Fair value standards also require the Association to classify its financial instruments into a three level hierarchy, based on the priority of inputs to valuation technique, as follows:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. The types of instruments included in Level 1 include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments which are generally included in this category include less liquid and restricted equity securities and over-the-counter derivatives including corporate bonds and loans and public company equity securities with legal restrictions.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE G - FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Instruments that are included in this category generally include investments in privately held portfolio companies, promissory notes to privately held companies and interests in other investment partnerships.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement

The table below presents the amounts of assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and 2017:

September 30, 2018:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Corporate equities	\$ 9,163,406	\$ 9,163,406	\$ -
Corporate bonds	161,886	161,886	-
Alternative investments	2,095,581	-	2,095,581
Mutual funds	1,483,038	1,483,038	-
Total	<u>\$12,903,911</u>	<u>\$10,808,330</u>	<u>\$ 2,095,581</u>

September 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Corporate equities	\$ 4,569,589	\$ 4,569,589	\$ -
Corporate bonds	70,874	70,874	-
Government securities	978,820	978,820	-
Mutual funds	7,447,613	7,447,613	-
Total	<u>\$13,066,896</u>	<u>\$13,066,896</u>	<u>\$ -</u>

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE H - PROPERTY AND EQUIPMENT

Property and equipment, at cost, consist of the following at September 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Land	\$ 275,000	\$ 275,000
Building and Building Improvements	1,376,745	1,380,925
Equipment	<u>255,753</u>	<u>373,215</u>
	1,907,498	2,029,140
Accumulated Depreciation	<u>(642,489)</u>	<u>(708,814)</u>
	<u>\$ 1,265,009</u>	<u>\$ 1,320,326</u>

Depreciation expense was \$52,873 and \$62,434 for the years ended September 30, 2018 and 2017, respectively.

NOTE I - NET ASSETS AND ENDOWMENTS

The Association's endowment consists of both unrestricted and donor restricted endowment funds. As required by generally accepted accounting principles (GAAP), 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.

The Association's management has interpreted the Commonwealth of Massachusetts' enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historic dollar value of donor-restricted endowment funds (absent explicit donor stipulations to the contrary). The term historic dollar value is defined as (i) the aggregate fair value in dollars of the contribution at the time it became an endowment, (ii) the fair value of subsequent contributions to the endowment, and (iii) accumulations to the endowment made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of the permanent endowment and subsequent gifts contributed to it, and (b) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is either classified as temporarily restricted net assets or unrestricted net assets in accordance with the terms of the donor's wishes.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE I - NET ASSETS AND ENDOWMENTS (continued)

Management considers expenditures from a donor-restricted fund to be limited to the uses and purposes for which the endowment fund is established and the use of net appreciation, realized gains (with respect to all assets) and unrealized gains (with respect only to readily marketable assets) is limited to the extent that the fair value of a donor-restricted fund exceeds the historic dollar value of the fund (unless the applicable gift instrument indicates that net appreciation shall not be expended). Management gives consideration as to whether expenditures are prudent when considering the long and short term needs of the Association in carrying out its purposes, its present and anticipated financial requirements, its expected total return on its investments, price level trends and general economic conditions.

The Association has a policy of appropriating for expenditure (the spending policy) each year from the income generated by its endowments. With the exception of board-designated, only current investment income (and not unrealized appreciation) earned on donor-restricted endowment funds is expended (in accordance with donor stipulations). The Association budgets approximately 5% of the endowment's fair value based on the expenditures of a historical base year, adjusted for inflation. During 2018, 100% of the income earned was authorized to be spent in accordance with donor stipulations. This policy is consistent with the Association's objectives to maintain the purchasing power of the assets through long-term returns that will provide future growth of the endowment and a source of current income to support its programs and operations.

Changes in net asset balances for the year ended September 30, 2018 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance October 1, 2017	\$11,319,002	\$ 212,159	\$ 3,366,044	\$14,897,205
Investment Return				
Dividend and interest income	1,223,671	14,542	-	1,238,213
Net appreciation (realized/unrealized)	(573,293)	(7,491)	-	(580,784)
Total Investment Return	<u>650,378</u>	<u>7,051</u>	<u>-</u>	<u>657,429</u>
Contributions	199,382	8,275	1,750	209,407
Program Revenue	158,739	-	-	158,739
Appropriations of net assets for expenditure	(1,031,041)	(26,103)	-	(1,057,144)
Balance September 30, 2018	<u>\$11,296,460</u>	<u>\$ 201,382</u>	<u>\$ 3,367,794</u>	<u>\$14,865,636</u>

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE I - NET ASSETS AND ENDOWMENTS (continued)

Changes in net asset balances for the year ended September 30, 2017 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance October 1, 2016	\$10,331,640	\$ 292,257	\$ 3,364,819	\$13,988,716
Investment Return				
Dividend and interest income	173,361	2,780	-	176,141
Net appreciation (realized/unrealized)	1,343,296	2,527	-	1,345,823
Total Investment Return	<u>1,516,657</u>	<u>5,307</u>	<u>-</u>	<u>1,521,964</u>
Contributions	79,915	103,884	1,225	185,024
Program Revenue	144,494	-	-	144,494
Appropriations of net assets for expenditure	<u>(753,704)</u>	<u>(189,289)</u>	<u>-</u>	<u>(942,993)</u>
Balance September 30, 2017	<u>\$11,319,002</u>	<u>\$ 212,159</u>	<u>\$ 3,366,044</u>	<u>\$14,897,205</u>

Donor-restricted endowment funds that are used to support programs, research and operations are invested in income generating funds and securities to the extent that the historic dollar value is sustained for capital preservation; some capital appreciation may be generated. Funds that may be restricted for a specific use by the donor or by law, or that are board-designated, are held in investments that afford opportunities for appreciation. In general, the endowments are invested for growth in funds that all have net asset values that are available daily and which meet certain quality criteria.

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 the Massachusetts Uniform Prudent Management of Institutional Funds Act requires to be retained as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets. There were no deficiencies as of September 30, 2018 resulting from unfavorable market fluctuations that occurred after continuing appropriations for programs or operations.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE I - NET ASSETS AND ENDOWMENTS (continued)

Net assets were comprised of the following at September 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund	\$ -	\$ -	\$ 3,310,956	\$ 3,310,956
Ford Fund and Other Unrestricted	11,296,460	-	-	11,296,460
Janet Mattei Fellowship	-	109,001	-	109,001
Margaret Mayall Assistantship	-	46,743	56,838	103,581
Other Temporarily Restricted Funds	-	45,638	-	45,638
	<u>\$11,296,460</u>	<u>\$ 201,382</u>	<u>\$ 3,367,794</u>	<u>\$14,865,636</u>

Net assets were comprised of the following at September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund	\$ -	\$ -	\$ 3,309,206	\$ 3,309,206
Ford Fund and Other Unrestricted	11,319,002	-	-	11,319,002
Janet Mattei Fellowship	-	102,513	-	102,513
Margaret Mayall Assistantship	-	48,469	56,838	105,307
Other Temporarily Restricted Funds	-	61,177	-	61,177
	<u>\$11,319,002</u>	<u>\$ 212,159</u>	<u>\$ 3,366,044</u>	<u>\$14,897,205</u>

The Association characterizes certain net asset balances into the following funds and/or categories:

Endowment Funds - The corpus of these funds are permanently restricted. Income and capital gains and losses (realized and unrealized) are considered unrestricted income usable toward the operation of the organization.

AMERICAN ASSOCIATION OF VARIABLE STAR OBSERVERS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTE I - NET ASSETS AND ENDOWMENTS (continued)

Janet A. Mattei Fellowship Fund - The Janet A. Mattei Fellowship fund is comprised of both board-designated and donor-restricted contributions made in memoriam of Janet A. Mattei, former director of the Association. The corpus, contributions and income derived from the portion of investments allocated to the Mattei Fellowship are considered temporarily restricted for the purpose of funding the research of a visiting fellow at the Association's headquarters for a limited time.

Margaret W. Mayall Assistantship Fund - The Mayall Fund was established in 1974 in honor of the Association's former director, Margaret W. Mayall. The purpose of the Fund is to pay for or defray expenses incurred by the hiring of research assistants. The corpus of the Fund is permanently restricted; the portion of investment income attributable to the Mayall Assistantship fund is temporarily restricted to support payments for salaries of "Mayall assistants".

NOTE J - EVALUATION OF SUBSEQUENT EVENTS

The management of the American Association of Variable Star Observers has evaluated subsequent events occurring after the balance sheet date of September 30, 2018 through December 6, 2018 which is the date the financial statements were available to be issued.