



**ASSOCIATION OF FUNDRAISING PROFESSIONALS AND
AFP FOUNDATION FOR PHILANTHROPY
December 31, 2016**

**Audited Consolidated Financial Statements
and Other Financial Information**

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Independent Auditor’s Report on the Consolidated Financial Statements

To the Board of Directors
Association of Fundraising Professionals and
AFP Foundation for Philanthropy

We have audited the accompanying consolidated financial statements of the Association of Fundraising Professionals and AFP Foundation for Philanthropy (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expense, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the consolidated 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 Organization’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association of Fundraising Professionals and AFP Foundation for Philanthropy as of December 31, 2016, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note O to the financial statements, the Organization restated certain beginning net asset amounts to correct previous years' classification errors.

Tate & Tryon

Washington, DC
July 5, 2017

Assets

Cash and cash equivalents	\$ 2,753,891
Investments	937,710
Accounts receivable, net	371,689
Pledges receivable, net	185,683
Prepaid expenses and other	313,345
Inventory	108,169
Property, equipment, and leasehold improvements, net	1,562,902
Total assets	\$ 6,233,389

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 498,809
Deferred revenue	4,264,294
Deferred rent	1,268,054
Total liabilities	6,031,157
Net assets (deficit)	
Without donor restrictions, as restated	(971,037)
With donor restrictions, as restated	1,173,269
Total net assets	202,232
Total liabilities and net assets	\$ 6,233,389

Activities without donor restrictions

Revenue and support	
Membership dues	\$ 5,820,400
Registration fees	2,778,309
Royalty income	1,307,860
Advertising and sponsorships	855,230
Contributions and grants	581,531
Exhibitor fees	368,310
Miscellaneous	108,177
Sales of merchandise	86,917
Donated services	66,178
Investment return, net	6,199
	<hr/>
	11,979,111
Net assets released from donor restrictions	218,193
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Total revenue and support	12,197,304
Expense	
Program services	
Center for fundraising innovation	2,992,024
Marketing and communications	2,326,352
Member and chapter services	1,895,920
Public policy, advocacy, and ethics	375,356
Relevant quality education	305,007
Inclusion and influence	30,983
	<hr/>
Total program services	7,925,642
Supporting services	
Management and general	3,536,551
Resource development	182,478
	<hr/>
Total supporting services	3,719,029
	<hr/>
Total expense	11,644,671
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Change in net assets without donor restrictions	552,633
Activities with donor restrictions	
Contributions	173,909
Investment return, net	35,326
Net assets released from donor restrictions	(218,193)
	<hr/>
Change in net assets with donor restrictions	(8,958)
	<hr/>
Change in net assets	543,675
Net assets (deficit), beginning of year	(341,443)
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Net assets, end of year	\$ 202,232

	Program Services							Supporting Services			Consolidated Total
	Center for Fundraising Innovation	Marketing and Communications	Member and Chapter Services	Public Policy, Advocacy, and Ethics	Relevant Quality Education	Inclusion and Influence	Total	Management and General	Resource Development	Total	
Salaries	\$ 475,237	\$ 785,076	\$ 614,629	\$ 233,431	\$ -	\$ -	\$ 2,108,373	\$ 1,345,244	\$ 64,952	\$ 1,410,196	\$ 3,518,569
Employee benefits	90,990	91,415	95,545	41,430			319,380	210,772	45	210,817	530,197
Payroll taxes	35,156	58,059	76,507	10,874			180,596	81,930	5,850	87,780	268,376
Total salaries and related	601,383	934,550	786,681	285,735	-	-	2,608,349	1,637,946	70,847	1,708,793	4,317,142
Contract and consulting fees	629,408	860,156	322,387	12,914			1,824,865	549,522	93,926	643,448	2,468,313
Conference, meetings and travel	1,321,972	31,897	136,895	10,530	58,768		1,560,062	120,260	2,050	122,310	1,682,372
Occupancy	163,411	216,204	278,354	27,218			685,187	223,857		223,857	909,044
Depreciation							-	334,292		334,292	334,292
Scholarships, grants, and sponsorships	19,717			28,000	245,014	29,720	322,451			-	322,451
Bank and credit card fees	34,434	39,205	170,340	3,820			247,799	72,896	655	73,551	321,350
Bad debt				6,015			6,015	295,001		295,001	301,016
Postage and shipping	57,113	74,426	82,389	217	42		214,187	1,905	1,656	3,561	217,748
Printing and design	128,765	49,325	11,513		1,183		190,786	3,493	2,367	5,860	196,646
Equipment and software	3,049	135	149	405			3,738	156,293		156,293	160,031
Promotion and marketing	19,309	102,967	477	259		1,263	124,275			-	124,275
Insurance	7,874		61,157				69,031	47,712		47,712	116,743
Other expenses	1,623		41,994				43,617	5,500	10,977	16,477	60,094
Dues and subscriptions	681	9,818	201	243			10,943	39,237		39,237	50,180
Office supplies	2,823	564	1,676				5,063	22,909		22,909	27,972
Corporate taxes			1,707				1,707	25,728		25,728	27,435
Cost of merchandise	462	7,105					7,567			-	7,567
Total expense	\$ 2,992,024	\$ 2,326,352	\$ 1,895,920	\$ 375,356	\$ 305,007	\$ 30,983	\$ 7,925,642	\$ 3,536,551	\$ 182,478	\$ 3,719,029	\$ 11,644,671

Cash flows from operating activities	
Change in net assets	\$ 543,675
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	334,292
Bad debt expense	301,016
Net gain on investments	(28,865)
Changes in assets and liabilities:	
Accounts receivable	(98,728)
Pledges receivable	168,924
Prepaid expenses and other	198,169
Inventory	(12,614)
Accounts payable and accrued expenses	(62,529)
Deferred revenue	156,985
Deferred rent	(135,413)
Total adjustments	821,237
Net cash provided by operating activities	1,364,912
Cash flows from investing activities	
Purchases of property, equipment, and leasehold improvements	(64,179)
Purchases of investments	(22,345)
Proceeds from sale of investments	109,901
Net cash provided by investing activities	23,377
Net increase in cash and cash equivalents	1,388,289
Cash and cash equivalents, beginning of year	1,365,602
Cash and cash equivalents, end of year	\$ 2,753,891

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Association of Fundraising Professionals (the Association) was founded in 1960 to advance philanthropy by enabling people and organizations to practice effective and ethical fundraising. The core activities through which the Association fulfills this mission include education, training, mentoring, research, credentialing, and advocacy.

The AFP Foundation for Philanthropy (the AFP U.S. Foundation) was founded in 1973. The AFP U.S. Foundation's mission is to strive to enhance philanthropy through programs of education, research, and service that will benefit all those who lead, serve, and support nonprofit organizations.

The AFP Foundation for Philanthropy - Canada / Fondation de Philanthropie AFP - Canada, was established to educate the general public, to promote research and to provide scholarships and bursaries in the fields of fundraising and philanthropy and was incorporated in 1998 as a not-for-profit organization under the Canada Corporations Act. The activities of the AFP Foundation for Philanthropy – Canada are not required to be, and are not, included in these consolidated financial statements.

Principles of consolidation: The consolidated financial statements include the accounts of the Association and AFP U.S. Foundation (collectively referred to as the Organization). All significant intra-entity accounts and transactions have been eliminated in consolidation.

Basis of accounting: The consolidated financial statements of the Organization are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when obligations are incurred.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

Income tax status: The Association is exempt from the payment of Federal and state income taxes on income other than net unrelated business income under Section 501(c)(6) of the Internal Revenue Code (IRC). The Association incurs unrelated business income tax mainly on its advertising income. Income tax expense for the year ended December 31, 2016 was approximately \$1,000.

The AFP U.S. Foundation is exempt from the payment of Federal and state income taxes on income other than net unrelated business income under Section 501(c)(3) of the IRC. The AFP U.S. Foundation is a publicly supported organization, as defined in Section 509(a)(1) of the IRC.

Cash and cash equivalents: For financial statement purposes, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. All funds held inside investment portfolios are excluded from cash and cash equivalents.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable: Accounts receivable consists primarily of amounts owed from customers as a result of the sale of advertising, sponsorships, conference registrations, and publications. Accounts receivable are presented at the gross, or face, amount due to the Organization, less an allowance for uncollectible accounts. The Organization's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances deemed to be uncollectible are written off to bad debt expense to the extent not covered by the allowance. Management has recorded an allowance of \$111,394, which is its estimated potentially uncollectible accounts receivable at December 31, 2016.

Inventory: Inventory consists of items available for resale or use in future periods and is stated at the lower of cost or market value, using the first-in, first-out method. Management periodically reviews its inventory and writes off slow-moving or obsolete items. All inventory is deemed fully salable at December 31, 2016.

Property, Equipment, and Leasehold Improvements: Property, equipment, and leasehold improvements are stated at cost. It is the policy of the Organization to capitalize all purchases of property and equipment greater than or equal to \$1,000 and depreciate/amortize them over the following estimated useful lives using the straight-line method, with no salvage value:

Office equipment	3 - 5 years
Computer equipment and software	3 - 10 years
Furniture	5 years
Leasehold improvements	Remaining term of the lease

Net Assets: Net assets are classified without donor restrictions or with donor restrictions based on the existence or absence of donor-imposed restrictions. A description of each net asset group is as follows:

Without donor restrictions: Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

With donor restrictions: Net assets with donor restrictions include those net assets whose use is subject to donor-imposed restrictions. Donor restrictions may be for a specified time or purpose limitation or the donor may specify that the corpus of their original and certain subsequent gifts be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Membership: Membership dues are recognized in the period to which they apply. The membership period is twelve months beginning the month paid or the member's renewal date, whichever is later.

Registration fees and exhibitor fees: Conference registration and exhibit fees are recognized as revenue in the year that the related conference takes place.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Program Services: The program services that the Association provides are:

Center for Fundraising Innovation: This program is the home of the Association's non-dues revenue programs focused on professional development and information resources. Key programs and projects include the International Fundraising Conference; various education and training programs such as Fundamentals of Fundraising, CFRE Refresher, AFP's webinar series, e-courses, Fundraising Principles and Practice course, and Faculty Training Academy; and information resources including Advancing Philanthropy magazine, the Ready Reference books series, and online "Hot Topic" annotated summaries of resources related to key fundraising topics. All these programs help fulfill the Association's strategic goal to provide relevant, quality education.

Marketing and Communications: This program is responsible for informing the members and general public of the Association's mission and core activities through various media such as social media, websites, and the design of visual marketing and promotional materials.

Member and Chapter Services: This program focuses on the member experience to ensure that each member receives the full benefit of the services offered through their membership to assist them in practicing effective and ethical fundraising. Member and Chapter Services also acts as a liaison to the Association Chapters to ensure that members experience the same benefits on a local level.

Public Policy, Advocacy, and Ethics: This program helps Association members understand how critical public policy and ethics are and how to act as advocates in their communities and organizations for ethical fundraising laws, regulations, and standard practices. The objective and initiatives are to develop member education and tool kits for chapter use that make public policy and ethics easy to understand and advocate.

Relevant Quality Education: This program of the AFP U.S. Foundation seeks to educate current professionals and develop future leaders of the profession. Conferences and academies are the main focus in delivering this education and development. In addition, this program provides scholarships to improve the fundraising profession.

Inclusion and Influence: This program focuses on increasing diversity and inclusion within the fundraising profession and philanthropy. The scholarship funds within the program further promote these focuses to young fundraising professionals. Grants are provided to diverse fundraising professionals to provide professional education, training, and information to advance their skills, abilities, and careers.

Functional allocation of expense: The costs of providing various program and supporting services have been summarized on a functional basis in the consolidated statement of activities. The statement of functional expense presents the natural classification detail of expenses by function. Accordingly, occupancy costs have been allocated among the program and supporting services benefited based on employee count.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Change in accounting policies: The Organization adopted FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* during the year ended December 31, 2016.

ASU No. 2016-14 is effective for years beginning after December 15, 2017, with early adoption permitted. ASU No. 2016-14 provides information regarding changes in the following areas of accounting and reporting:

- Net asset classes
- Liquidity
- Investment return
- Expense reporting

Management has elected to early adopt ASU No. 2016-14; however, total net assets and total changes in net assets were not affected as of and for the year ended December 31, 2016.

Subsequent events: Subsequent events have been evaluated through July 5, 2017, which was the date the consolidated financial statements were available to be issued.

B. CREDIT AND MARKET RISK

Credit risk: The Organization maintains demand deposits with commercial banks and cash funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portion of cash is backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Organization.

Market value risk: The Organization invests in a professionally managed portfolio that contains various types of marketable securities. Such investments are exposed to market and credit risks and may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

The Organization has implemented the accounting standards topic regarding fair value measurements which establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

C. INVESTMENTS - CONTINUED

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments recorded at fair value which are classified within Level 1 include common stocks and mutual funds, the fair values for which were based on quoted prices for identical assets in active markets. Management believes the estimated fair value of investments to be a reasonable approximation of the exit price for the assets.

Investments recorded at cost include cash held within the investment portfolio. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

Interest and dividend income, realized and unrealized gains and losses, and investment fees are reflected within investment return, net, in the consolidated statement of activities.

Investments consisted of the following at December 31, 2016:

Investments, at fair value	
Common stocks	\$ 419,385
Mutual funds - equity	183,853
Mutual funds - fixed income	<u>331,715</u>
	934,953
Investments, at cost	
Cash funds	<u>2,757</u>
	<u>\$ 937,710</u>

D. PLEDGES RECEIVABLE

Pledges receivable consist primarily of the AFP U.S. Foundation's annual fund and major gifts and have been discounted to net present value using a discount rate of 3.75%. Pledges receivable, recorded in the consolidated statement of financial position, consisted of the following at December 31, 2016:

Receivable in less than one year	\$ 126,820
Receivable in one to five years	118,255
Receivable in more than five years	-
Less: Allowance for doubtful accounts and discount to present value	<u>(59,392)</u>
	<u>\$ 185,683</u>

E. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

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

Office equipment	\$ 290,942
Computer equipment and software	2,875,180
Furniture	618,472
Leasehold improvements	<u>2,297,734</u>
	6,082,328
Less accumulated depreciation/amortization	<u>(4,519,426)</u>
	<u>\$ 1,562,902</u>

F. DEFERRED REVENUE

Deferred revenue consisted of the following at December 31, 2016:

Membership dues	\$ 3,000,914
International conference	<u>1,263,380</u>
	<u>\$ 4,264,294</u>

G. LIQUIDITY

The following reflects the Organization's financial assets as of December 31, 2016, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions. Amounts not available include amounts set aside as Board designated net assets (see Note H) that could be drawn upon if the governing board approves that action.

Cash and cash equivalents	\$ 2,753,891
Investments	937,710
Accounts receivable	371,689
Pledges receivable	185,683
Less amounts expected to be collected after one year	(112,091)
Prepaid expenses and other	<u>313,345</u>
Financial assets available	4,450,227
Less those unavailable for general expenditures within one year due to:	
Investments held in perpetuity	(516,539)
Subject to expenditure for specified purpose	(656,730)
Board designated net assets	<u>(148,893)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,128,065</u>

G. LIQUIDITY – CONTINUED

Occasionally, the board designates a portion of any operating surplus to its operating reserve, which was \$90,000 as of December 31, 2016. The Organization has a goal to maintain an operating reserve in an amount equal to six months of average monthly operating costs, which exclude depreciation, in-kind, and other non-cash expenses. Such average monthly costs were approximately \$925,000 for the year ended December 31, 2016. As of December 31, 2016, the Organization had approximately 3 months of financial assets available to meet its average monthly operating costs.

The Organization currently does not have a policy regarding the investment of cash in excess of daily requirements. Additionally, the Organization does not have a line of credit.

H. BOARD DESIGNATED NET ASSETS

Board designated net assets represent funds received from Ralph E. Chamberlain, a former Chair of the Board, and the operating reserve, which is designed to provide an internal source of funds for situations such as an unexpected or sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. These funds are without donor restrictions and are available for the use of the Association (for the operating reserve) and the AFP U.S. Foundation (for the Chamberlain fund) at the direction of the respective Boards. Board designated net assets consisted of the following at December 31, 2016:

Chamberlain fund	\$	58,893
Operating reserve		<u>90,000</u>
	\$	<u>148,893</u>

I. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31, 2016:

Endowments given in perpetuity	
International conference speakers	\$ 96,267
██████████ Research prize	71,765
██████████ scholarship	68,780
Other	67,836
██████████ Ethics Education	62,013
International conference scholars	44,845
Strategic planning	42,241
Excellence in leadership	27,720
Staff development	25,628
Executive Management Institute scholarships	9,444
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	516,539
Subject to expenditure for specified purpose	
Annual fund and major gifts	212,654
Endowment interest	164,154
██████████ professional education	204,004
PAC contributions	75,918
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	656,730
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	\$ 1,173,269

Net assets released from restriction due to program satisfaction and other events are as follows for the year ended December 31, 2016:

Program satisfaction	
Annual fund and major gifts	\$ 174,325
PAC Contributions	39,868
Endowment interest	3,000
██████████ Professional Education	1,000
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	\$ 218,193

I. NET ASSETS WITH DONOR RESTRICTIONS – CONTINUED

The Organization's net assets with donor restrictions held in perpetuity contain approximately 20 individual funds held to provide earnings to pay for scholarships, staff development and education.

The Organization's Board of Directors has interpreted the law that underlies the Organization's net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as net assets with donor restrictions held in perpetuity (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

Changes in endowment net assets for the year ended December 31, 2016:

Beginning net assets, as restated	\$ 654,411
Investment return, net	26,778
Contributions	2,504
Appropriation of endowment assets for expenditure	<u>(3,000)</u>
Ending net assets	<u>\$ 680,693</u>

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization 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 balanced portfolio comprised of cash, fixed income securities, and equities. To satisfy its long-term objectives, the Organization 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).

J. DONATED SERVICES

The AFP U.S. Foundation received professional services to conduct a mail and telephone outreach program for the AFP U.S. Foundation's Annual Fund Campaign. The value of the donated services is included in donated services revenue and resource development expense in the consolidated statement of activities and amounted to \$66,178 for the year ended December 31, 2016.

The Association received professional services related to the annual meeting and international conference. The value of the donated services is included in advertising and sponsorships revenue and center for fundraising innovation expense in the consolidated statement of activities, and amounted to \$122,162 for the year ended December 31, 2016.

J. DONATED SERVICES – CONTINUED

The Association provided \$200,000 in contributed services to the AFP U.S. Foundation for the year ended December 31, 2016. Additionally, the Association paid \$66,035 of the AFP U.S. Foundation's expenses during the year ended December 31, 2016. These amounts have been eliminated in consolidation.

K. COMMITMENTS AND CONTINGENCIES

Office Lease: During 2006, the Association entered into an office lease agreement that began February 1, 2007 and expires January 31, 2022. The base rent increases annually based on a schedule provided in the lease. Under the terms of the lease, the lessor provided lease incentives totaling approximately \$1.3 million to build out the office space. Under accounting standards generally accepted in the United States of America all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected as deferred rent in the accompanying consolidated statement of financial position.

Rent expense was \$913,235 for the year ended December 31, 2016. Future minimum lease payments for office space under this lease are as follows:

Year Ending December 31,	
2017	\$ 1,030,836
2018	1,061,762
2019	1,093,615
2020	1,126,423
2021	1,160,216
2022	<u>194,312</u>
	<u>\$ 5,667,164</u>

The Association entered into an agreement to sublease a portion of its office space to an unrelated tenant. The agreement, as amended, expired in December 2016, at which time it became a month-to-month sublease. The subtenant moved out in February 2017. Sublease income approximated \$161,000 for the year ended December 31, 2016. The Association expects to receive approximate future sublease income of \$25,000 during the year ending December 31, 2017.

Hotel contracts: The Association has entered into several agreements with hotels providing room accommodations and service for its meetings and conferences. Many of the agreements contain a clause whereby the Association is liable for liquidated damages in the event of cancellation as calculated in accordance with the terms of the agreements. The Association purchases event cancellation insurance for its major event, the International Conference on Fundraising, to mitigate any risk of cancellation.

Employment agreement: The Association has an employment agreement with its Interim President and Chief Executive Officer. [REDACTED]

L. RETIREMENT PLANS

The Association maintains a defined contribution retirement plan for all employees who meet certain age and length of employment requirements. In 2016, the Association contributed approximately 4% of the participating employees' base compensation. Pension expense was \$99,254 for the year ended December 31, 2016.

Additionally, the Association sponsors a 401(k) plan, to which qualifying employees may contribute a percentage of their salaries annually. Employees are eligible to participate in the plan after one year of service. The Association does not contribute to this plan and therefore no expense, other than administration fees, has been reflected in these consolidated financial statements.

M. THE ASSOCIATION OF FUNDRAISING PROFESSIONALS POLITICAL ACTION COMMITTEE

The Association organized a political action committee (PAC) on July 25, 2002. The PAC, known as the Association of Fundraising Professionals Political Action Committee, collects voluntary donations only from the Association's members and their families who are U.S. citizens. The PAC supports political candidates who believe in the principles to which philanthropy and the fundraising profession are dedicated. The PAC had contribution income totaling \$47,145 during the year ended December 31, 2016. These contributions are included in net assets with donor restrictions. The PAC is generally exempt from income taxes on revenue, other than net investment income, under Section 527 of the Internal Revenue Code. The PAC had no net investment income during the year ended December 31, 2016.

N. ACCUMULATED DEFICIT

As indicated in the accompanying consolidated statement of financial position, the Organization has reported losses in prior years which have generated a deficit balance in net assets without donor restrictions (as restated) of \$971,037 at December 31, 2016. Deficits threaten to undermine the Organization's ability to continue its current level of operations in the future. The consolidated financial statements do not include any adjustments that might be necessary in the event that the Organization is unable to continue its current level of operations.

The current year positive consolidated change in net assets without donor restrictions was attributable to improvement in results from operations. Management has initiated a series of initiatives that led to these improved results, including a zero-based budgeting and forecasting philosophy and significant changes in governance and a reduction in staff during the first half of 2016 in the AFP U.S. Foundation. Management anticipates continuing these efforts.

O. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

During the year ended December 31, 2016, the AFP U.S. Foundation's management reviewed the classification of net assets from 2002 through 2015. The AFP U.S. Foundation determined that certain restrictions should have been released but those releases had not been reported in the audited financial statements. Additionally, certain amounts were previously recorded in the audited financial statements as additions to the endowment but should not have been. Therefore, the January 1, 2016 beginning balances have been restated from the amounts originally reported to properly classify net assets by category. The impact of the restatement on each net asset class is as follows at January 1, 2016:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
January 1, 2016 net assets, as originally presented	\$ (2,261,368)	\$ 1,919,925	\$ (341,443)
Reclassification	<u>737,698</u>	<u>(737,698)</u>	<u>-</u>
January 1, 2016 net assets, as restated	<u>\$ (1,523,670)</u>	<u>\$ 1,182,227</u>	<u>\$ (341,443)</u>

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on Other Financial Information

To the Board of Directors
Association of Fundraising Professionals and
AFP Foundation for Philanthropy

We have audited the consolidated financial statements of the Association of Fundraising Professionals and AFP Foundation for Philanthropy as of and for the year ended December 31, 2016, and our report thereon dated July 5, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on the following two pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position or changes in net assets of the individual entities and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC
July 5, 2017

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	Association	Foundation	Eliminations	Consolidated Total
Assets				
Cash and cash equivalents	\$ 2,563,577	\$ 190,314	\$ -	\$ 2,753,891
Investments		937,710		937,710
Accounts receivable, net	911,733	953	(540,997)	371,689
Pledges receivable, net	4,362	181,321		185,683
Prepaid expenses and other	313,127	218		313,345
Inventory	108,169			108,169
Property, equipment, and leasehold improvements, net	1,532,218	30,684		1,562,902
Total assets	\$ 5,433,186	\$ 1,341,200	\$ (540,997)	\$ 6,233,389
Liabilities and net assets				
Liabilities				
Accounts payable and accrued expenses	\$ 434,139	\$ 605,667	\$ (540,997)	\$ 498,809
Deferred revenue	4,264,294			4,264,294
Deferred rent	1,219,081	48,973		1,268,054
Total liabilities	5,917,514	654,640	(540,997)	6,031,157
Net assets (deficit)				
Without donor restrictions	(560,246)	(410,791)		(971,037)
With donor restrictions	75,918	1,097,351		1,173,269
Total net assets (deficit)	(484,328)	686,560	-	202,232
Total liabilities and net assets	\$ 5,433,186	\$ 1,341,200	\$ (540,997)	\$ 6,233,389

	Association	Foundation	Eliminations	Consolidated Total
Activities without donor restrictions				
Revenue and support				
Membership dues	\$ 5,820,400	\$ -	\$ -	\$ 5,820,400
Registration fees	2,778,309			2,778,309
Royalty income	1,307,860			1,307,860
Advertising and sponsorships	855,230			855,230
Contributions and grants	59,154	522,377		581,531
Exhibitor fees	368,310			368,310
Miscellaneous	108,162	15		108,177
Sales of merchandise	86,917			86,917
Donated services		332,213	(266,035)	66,178
Investment return, net		6,199		6,199
	11,384,342	860,804	(266,035)	11,979,111
Net assets released from donor restrictions	39,868	178,325		218,193
	11,424,210	1,039,129	(266,035)	12,197,304
Expense				
Program services				
Center for fundraising innovation	2,992,024			2,992,024
Marketing and communications	2,326,352			2,326,352
Member and chapter services	1,895,920			1,895,920
Public policy, advocacy, and ethics	375,356			375,356
Relevant quality education		305,007		305,007
Inclusion and influence		30,983		30,983
	7,589,652	335,990	-	7,925,642
Supporting services				
Management and general	3,092,172	590,414	(146,035)	3,536,551
Resource development		302,478	(120,000)	182,478
	3,092,172	892,892	(266,035)	3,719,029
	10,681,824	1,228,882	(266,035)	11,644,671
Change in net assets without donor restrictions	742,386	(189,753)	-	552,633
Activities with donor restrictions				
Contributions	47,145	126,764		173,909
Investment return, net		35,326		35,326
Net assets released from donor restrictions	(39,868)	(178,325)		(218,193)
Change in net assets with donor restrictions	7,277	(16,235)	-	(8,958)
Change in net assets	749,663	(205,988)	-	543,675
Net assets (deficit), beginning of year	(1,233,991)	892,548		(341,443)
Net assets (deficit), end of year	\$ (484,328)	\$ 686,560	\$ -	\$ 202,232