American Alliance of Museums

# American Association of Museums (d/b/a American Alliance of Museums)

## Financial Statements and Supplemental Information

***For the Year Ended December 31, 2016***
***(With Summarized Financial Information for the Year Ended December 31, 2015)***

**and**
**Report Thereon**

**AMERICAN ALLIANCE OF MUSEUMS**

# TABLE OF CONTENTS
**For the Year Ended December 31, 2016**

Raffa

Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
American Alliance of Museums

We have audited the accompanying financial statements of the American Association of Museums (d/b/a the American Alliance of Museums) (the Alliance), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Alliance as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Continued**

**Other Matters**

*Report on Summarized Comparative Information*

We have previously audited the Alliance's 2015 financial statements, and in our report dated April 12, 2016, we expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Report on Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of functional expenses on page 19 is presented for purposes of additional analysis and is 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.

Raffa P.C.

**Raffa, P.C.**

Washington, DC
April 19, 2017

**AMERICAN ALLIANCE OF MUSEUMS**

**STATEMENT OF FINANCIAL POSITION**
**December 31, 2016**
**(With Summarized Financial Information as of December 31, 2015)**

| | 2016 | 2015 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 789,122 | $ 416,045 |
| Accounts receivable, net of allowance for doubtful accounts of $68,857 in 2016 and $92,867 in 2015 | 273,867 | 350,514 |
| Pledges receivable | 100,000 | 157,500 |
| Grants and contracts receivable | 163,612 | 30,498 |
| Inventory | 87,992 | 238,263 |
| Prepaid expenses and deposits | 187,341 | 266,670 |
| Investments | 3,267,540 | 3,073,353 |
| Property and equipment, net | 1,757,017 | 1,940,394 |
| TOTAL ASSETS | $ 6,626,491 | $ 6,473,237 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 370,580 | $ 561,518 |
| Deferred dues | 1,734,899 | 1,810,784 |
| Deferred revenue | 960,736 | 1,002,666 |
| Line of credit | - | - |
| Funds held on behalf of others | 40,500 | 40,500 |
| Deferred rent and leasehold incentive liability | 1,494,950 | 1,431,426 |
| TOTAL LIABILITIES | 4,601,665 | 4,846,894 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 1,100,426 | 605,591 |
| Board designated | 81,971 | 86,175 |
| Total Unrestricted Net Assets | 1,182,397 | 691,766 |
| Temporarily restricted | 571,114 | 663,262 |
| Permanently restricted | 271,315 | 271,315 |
| TOTAL NET ASSETS | 2,024,826 | 1,626,343 |
| TOTAL LIABILITIES AND NET ASSETS | $ 6,626,491 | $ 6,473,237 |

**The accompanying notes are an integral part of these financial statements.**

**AMERICAN ALLIANCE OF MUSEUMS**

**STATEMENT OF ACTIVITIES**
**For the Year Ended December 31, 2016**
**(With Summarized Financial Information for the Year Ended December 31, 2015)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|---|
| OPERATING REVENUE AND SUPPORT | | | | | |
| Membership dues | $ 3,313,207 | $ - | $ - | $ 3,313,207 | $ 3,264,327 |
| Grants and contracts | 1,125,238 | - | - | 1,125,238 | 1,663,285 |
| Exhibit and other fees | 1,292,568 | - | - | 1,292,568 | 1,372,349 |
| Registrations | 1,775,275 | - | - | 1,775,275 | 1,160,200 |
| Contributions and sponsorships | 530,323 | 414,550 | - | 944,873 | 1,232,008 |
| Advertising income | 712,140 | - | - | 712,140 | 683,494 |
| Royalties | 153,165 | - | - | 153,165 | 161,625 |
| Accreditation fees | 354,075 | - | - | 354,075 | 338,308 |
| Publication sales | 176,920 | - | - | 176,920 | 207,798 |
| Rental income | - | - | - | - | 136,760 |
| Other | 173,270 | - | - | 173,270 | 151,097 |
| Subscriptions | 28,291 | - | - | 28,291 | 24,960 |
| Appropriation of accumulated earnings | 392 | 18,202 | - | 18,594 | 20,642 |
| Net assets released from restrictions: | | | | | |
| Released from purpose restrictions | 233,773 | (233,773) | - | - | - |
| Released from time restrictions | 291,127 | (291,127) | - | - | - |
| TOTAL OPERATING REVENUE AND SUPPORT | 10,159,764 | (92,148) | - | 10,067,616 | 10,416,853 |
| OPERATING EXPENSES | | | | | |
| Program Services: | | | | | |
| Meetings and professional education | 3,451,664 | - | - | 3,451,664 | 3,063,164 |
| Field-wide services | 2,034,747 | - | - | 2,034,747 | 3,141,448 |
| Publications and business enterprises | 1,124,709 | - | - | 1,124,709 | 1,073,817 |
| Membership | 1,048,014 | - | - | 1,048,014 | 1,082,479 |
| Advocacy | 754,813 | - | - | 754,813 | 749,142 |
| Center for the Future of Museums | 466,034 | - | - | 466,034 | 353,913 |
| Total Program Services | 8,879,981 | - | - | 8,879,981 | 9,463,963 |
| Supporting Services: | | | | | |
| Management and general | 408,960 | - | - | 408,960 | 241,489 |
| Development and fundraising | 535,481 | - | - | 535,481 | 557,976 |
| Total Supporting Services | 944,441 | - | - | 944,441 | 799,465 |
| TOTAL OPERATING EXPENSES | 9,824,422 | - | - | 9,824,422 | 10,263,428 |
| Change in net assets from operations | 335,342 | (92,148) | - | 243,194 | 153,425 |
| NONOPERATING INCOME (EXPENSE) | | | | | |
| Investment income, net | 155,681 | 18,202 | - | 173,883 | 14,173 |
| Appropriation of accumulated earnings | (392) | (18,202) | - | (18,594) | (20,642) |
| Office relocation and disposal activity | - | - | - | - | 169,270 |
| Executive search expense | - | - | - | - | (29,505) |
| TOTAL NONOPERATING INCOME (EXPENSE) | 155,289 | - | - | 155,289 | 133,296 |
| CHANGE IN NET ASSETS | 490,631 | (92,148) | - | 398,483 | 286,721 |
| NET ASSETS, BEGINNING OF YEAR | 691,766 | 663,262 | 271,315 | 1,626,343 | 1,339,622 |
| NET ASSETS, END OF YEAR | $ 1,182,397 | $ 571,114 | $ 271,315 | $ 2,024,826 | $ 1,626,343 |

**The accompanying notes are an integral part of these financial statements.**

**AMERICAN ALLIANCE OF MUSEUMS**

**STATEMENT OF CASH FLOWS**
**For the Year Ended December 31, 2016**
**(With Summarized Financial Information for the Year Ended December 31, 2015)**
**Increase (Decrease) in Cash and Cash Equivalents**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 398,483 | $ 286,721 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 296,738 | 273,962 |
| Loss on disposal of property and equipment | - | 182,302 |
| Allowance for inventory obsolescence | 79,603 | 2,802 |
| Net realized losses (gains) on sales of investments | 27,614 | (375,039) |
| Net unrealized (gains) losses on investments | (166,631) | 407,976 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 76,647 | (112,633) |
| Pledges receivable | 57,500 | (32,500) |
| Grants and contracts receivable | (133,114) | 37,317 |
| Inventory | 70,668 | 82,540 |
| Prepaid expenses and deposits | 79,329 | (44,522) |
| Accounts payable and accrued expenses | (115,154) | 40,480 |
| Deferred dues | (75,885) | 20,241 |
| Deferred revenue | (41,930) | 50,723 |
| Deferred rent and leasehold incentive liability | 63,524 | (382,392) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 617,392 | 437,978 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (189,145) | (290,587) |
| Proceeds from sales of investments | 454,258 | 4,422,878 |
| Purchases of investments | (509,428) | (4,474,753) |
| NET CASH USED IN INVESTING ACTIVITIES | (244,315) | (342,462) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments of line of credit | - | (150,000) |
| NET CASH USED IN FINANCING ACTIVITIES | - | (150,000) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 373,077 | (54,484) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 416,045 | 470,529 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 789,122 | $ 416,045 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Noncash investing activities: | | |
| Leasehold improvements acquired under operating lease incentive | $ - | $ 1,149,600 |
| Purchases of leasehold improvements still payable | - | 75,784 |
| Total Noncash Investing Activities | $ - | $ 1,225,384 |
| Taxes paid | $ 40,305 | $ 18,750 |
| Interest paid | $ - | $ 188 |

**The accompanying notes are an integral part of these financial statements.**

1. Organization and Summary of Significant Accounting Policies

**Organization**

The American Association of Museums, rebranded in September 2012, is now doing business as the American Alliance of Museums (the Alliance). The Alliance is a not-for-profit organization headquartered in Arlington, VA. The mission of the Alliance is to nurture excellence in museums through advocacy, resources and service to museum professionals. The Alliance accomplishes this mission through professional development, publications on current museum administration topics, programs that are established to address concerns specific to museums, establishing and maintaining professional standards for museums through its Continuum of Excellence program, and keeping the museum community informed of current museum issues through its government affairs and media relations programs.

**Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting. As such, revenues are recognized when earned and expenses are recognized when the underlying obligations are incurred.

**Cash and Cash Equivalents**

The Alliance considers all demand deposits and money market funds that are not part of the Alliance's investment portfolio, as well as certificates of deposit purchased with original maturity dates of 90 days or less, to be cash equivalents.

**Accounts Receivable**

Accounts receivable primarily consist of amounts due to the Alliance from the sale of its publications and associated advertising, as well as the sale of member products. The Alliance's management periodically reviews the status of all account receivable balances for collectibility and generally records an allowance for doubtful accounts equal to unpaid customer balances greater than 90 days old.

**Pledges Receivable**

Pledges receivable are recognized in the period in which they are promised at their net realizable value.

**Inventory**

Inventory consists of publications held for sale through the Alliance's bookstore and is valued at the lower of cost (first-in, first-out basis) or market. Items that are deemed nonsalable are charged to the allowance for obsolescence in the period deemed nonsalable.

**Investments**

Investments are composed of money market funds and equity and fixed-income mutual funds and are recorded in the financial statements at fair value, with gains and losses included in the accompanying statement of activities. Fair value is the price that would be received to sell an asset or liability through an orderly transaction between market participants at the measurement date.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

**Investments (continued)**

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized gains or losses are determined by a comparison of fair value at the beginning and end of the year.

**Property and Equipment and Related Depreciation and Amortization**

Property and equipment are recorded at cost. The Alliance capitalizes expenditures for property and equipment in excess of $5,000. Lesser amounts are expensed in the year of acquisition. Depreciation and amortization are recorded using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives. Software has an estimated useful life of five to seven years, and furniture and equipment have estimated useful lives of three to ten years. Leasehold improvements are amortized over the remaining life of the lease. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts and the resulting gain or loss, if any, is included in revenue and support or expenses in the accompanying statement of activities.

**Funds Held on Behalf of Others**

The Alliance holds a security deposit in accordance with its office subleasing agreement that is recorded as funds held on behalf of others in the accompanying statement of financial position.

**Classification of Net Assets**

The net assets of the Alliance are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Alliance's operations. Unrestricted net assets also include assets that have been designated by the Board of Directors as a quasi-endowment. The Alliance's designated funds represent funds that are subject to purpose restrictions established by the Board of Directors. The investment income associated with these funds may be used as designated by the Board of Directors. Historically, the board-designated funds have been used in varying degrees and in varying amounts for the accreditation program and for certain fellowships.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.
- Permanently restricted net assets represent resources that are to be held in perpetuity by the Alliance, as stipulated by donors, and only the investment earnings are to be expended for the purposes designated by the donor.

1. Organization and Summary of Significant Accounting Policies (continued)

**Revenue Recognition**

Membership dues are recognized as revenue in the period to which the dues relate. Accordingly, dues paid by members in advance of the membership period are reported as deferred dues in the accompanying statement of financial position.

Registration and exhibit fee revenue and the related costs of the annual meeting are recognized in the year in which the meeting is held. Accordingly, revenue received in advance of the annual meeting is recorded as deferred revenue in the accompanying statement of financial position. Expenses paid in advance of the annual meeting are recorded as prepaid expenses in the accompanying statement of financial position.

Grants and contributions are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. Grants and contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

The Alliance receives cooperative contracts and grant awards from federal government agencies in exchange for services. Revenue from these cooperative grants and contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs. The Alliance also receives grant awards from federal government agencies that are recognized as contributions upon the federal agency awarding the grant. Revenue recognized on grants and contracts for which payments have not been received is included in grants and contracts receivable in the accompanying statement of financial position.

Advertising income is recognized in the month in which the publication is mailed to members.

Publication sales are recorded when the related publication is shipped and are recorded in the accompanying statement of activities, net of any discounts. Shipping and handling costs are recorded as cost of goods sold.

Accreditation fees represent annual fees billed to all museums participating in the accreditation program. This program includes applicants that have not yet been accredited and museums not currently in active review. Revenue recognized on accreditation fees for which payment has not yet been received is included in accounts receivable in the accompanying statement of financial position.

1. Organization and Summary of Significant Accounting Policies (continued)

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Expenses that are not directly charged to a program or supporting service are allocated among the programs and supporting services based upon management's estimates of the portion of the costs applicable to each function.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**Definition of Operations**

Operating revenue and expenses generally reflect those revenues and expenses that arise from the Alliance's activities and exclude investment income, which the Alliance defines as all interest, dividends, realized and unrealized gains and losses, and investment fees from long-term investments.

2. Pledges, Grants and Contracts Receivable

As of December 31, 2016, pledges receivable primarily consisted of support promised to enhance program development and communications and fellowships. Grants and contracts receivable are composed of amounts due from federal agencies and sponsoring organizations. All amounts are due within one year and are considered fully collectible.

3. Investments

Investments consisted of the following at fair value as of December 31, 2016:

| | |
|---|---|
| Equity mutual funds | $ 1,885,148 |
| Fixed-income mutual funds | 1,382,066 |
| Money market funds | 30,326 |
| Total Investments | $ 3,267,540 |

Continued

3. Investments (continued)

Investments, by net asset composition, consisted of the following as of December 31, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Investments | $ 2,996,225 | $ - | $ 271,315 | $ 3,267,540 |

Investment income, net of investment expenses, consisted of the following for the year ended December 31, 2016:

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Interest and dividends | $ 51,149 | $ 7,576 | $ 58,725 |
| Realized losses | (21,882) | (5,732) | (27,614) |
| Unrealized gains | 148,132 | 18,499 | 166,631 |
| Investment expense | (21,718) | (2,141) | (23,859) |
| Investment Income, Net | $ 155,681 | $ 18,202 | $ 173,883 |

4. Fair Value Measurement

Accounting standards define fair value and establish a framework for measuring fair value for those assets and liabilities that are measured at fair value on a recurring basis. In accordance with the fair value measurement standards, the Alliance has categorized its applicable financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based upon the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

4. Fair Value Measurement (continued)

The following table summarizes the Alliance's assets measured at fair value on a recurring basis as of December 31, 2016:

| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) |
|---|---|---|
| Assets: | | |
| Investments: | | |
| Equity mutual funds: | | |
| Large cap growth | $ 1,103,998 | $ 1,103,998 |
| Large cap value | 427,428 | 427,428 |
| International equity | 323,722 | 323,722 |
| Fixed income mutual funds: | | |
| Long term bond | 124,385 | 124,385 |
| Intermediate term bond | 635,751 | 635,751 |
| Short term bond | 621,930 | 621,930 |
| Money market funds | 30,326 | 30,326 |
| Total Investments | $ 3,267,540 | $ 3,267,540 |

The Alliance used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value:

*Money market funds and equity and fixed-income mutual funds* – Value derived from the net asset value of shares held at year-end and based on quoted prices in active markets.

5. Property and Equipment and Related Depreciation and Amortization

The Alliance held the following property and equipment as of December 31, 2016:

| | |
|---|---|
| Software | $ 2,685,076 |
| Furniture and equipment | 352,976 |
| Leasehold improvements | 1,275,046 |
| Total Property and Equipment | 4,313,098 |
| Less: Accumulated Depreciation and Amortization | (2,556,081) |
| Property and Equipment, Net | $ 1,757,017 |

5. Property and Equipment and Related Depreciation and Amortization (continued)

Depreciation and amortization expense totaled $296,738 for the year ended December 31, 2016.

6. Line of Credit

The Alliance has a revolving line of credit with its bank in the amount of $1,230,000 that is currently extended through June 30, 2017. The Alliance uses this line of credit for two reasons: 1) $600,000 is committed as Standby Letters of Credit against the office leases; 2) the remaining balance is available as a short-term borrowing facility to supplement the cash available to fund its operations. Amounts drawn on this line of credit accrue interest at the British Bankers Alliance London Interbank Offered Rate plus 1.5%, which together was 3.17% as of December 31, 2016. For the year ended December 31, 2016, there were no amounts drawn on, and no interest expense associated with, the line of credit. The line of credit is secured by the Alliance's investments.

7. Pension Plan

The Alliance sponsors a tax-deferred annuity 403(b) plan for eligible employees. Eligible employees may elect to contribute to their individual annuity contracts through salary deferrals. The Alliance will match contributions to each employee's individual annuity contract up to 5% of that employee's annual salary. The Alliance's contributions to the plan totaled $160,350 for the year ended December 31, 2016.

8. Operating Leases

**Washington, DC, Office Lease**

The Alliance entered into a noncancelable operating lease for office and storage space through December 31, 2020. The lease contains an annual rent escalation provision of 2.5% that becomes effective on each anniversary date of the agreement and a pass-through provision for a portion of the building's operating costs and taxes. Furthermore, in accordance with the lease agreement, the Alliance provided an irrevocable letter of credit in the amount of $64,806 to the lessor as a security deposit for the lease. The Alliance entered into a sublease arrangement for a portion of its office space that commenced on September 1, 2010, and extended through December 31, 2016. The Alliance assigned its right to receive rental income under the sublease agreement to its new landlord under the terms of the April 1, 2015, lease agreement as described under new office lease below.

Continued

8. Operating Leases (continued)

**New Office Lease**

On April 1, 2015, the Alliance signed a noncancelable operating lease for office and storage space in Arlington, VA, through January 31, 2031, with annual base rent of $643,776 payable monthly. The lease contains an annual rent escalation provision of 3% that becomes effective on each anniversary date of the agreement and a pass-through provision for a portion of the building and operating costs and taxes. As an inducement to this lease, the lease calls for the new landlord to pay all rent, operating costs and taxes accruing on or after the rent start date, which are required to be paid to comply with the Alliances' obligations under the Washington, DC, lease. In addition, the new landlord provided the Alliance with a tenant improvement allowance totaling $1,149,600, which was utilized by the Alliance to construct its new offices during the year ended December 31, 2015. The Alliance will provide an irrevocable letter of credit in the amount of $482,832 to the new landlord as a security deposit for the lease. If certain financial provisions are met, the security deposit required on the lease will be reduced to $268,400 on the ninth anniversary of the rent start date.

Under GAAP, all lease incentives and fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and leasehold incentive liability in the accompanying statement of financial position. The Alliance also entered into noncancelable operating leases for certain office equipment. The leases expire on various dates through 2018.

Future minimum lease rental payments under these operating leases, net of sublease income, are as follows:

| For the Year Ending December 31, | Leases |
|---|---|
| 2017 | $ 697,619 |
| 2018 | 706,745 |
| 2019 | 716,476 |
| 2020 | 737,970 |
| 2021 | 760,109 |
| Thereafter | 8,038,185 |
| Total | $ 11,657,104 |

Rent expense totaled $720,828 for the year ended December 31, 2016.

9. Commitments and Risk

**Hotel Commitments**

The Alliance has entered into agreements with several hotels to provide conference facilities and room accommodations for its annual meeting, as well as other meetings and workshops, through May 2019. The agreements contain various clauses whereby the Alliance is liable for

9. Commitments and Risk (continued)

**Hotel Commitments (continued)**

liquidated damages in the event of cancellation or lower-than-anticipated attendance. The Alliance's management does not believe that any losses will be incurred under these contracts. The maximum possible amount of liquidated damages was approximately $2,637,000 as of December 31, 2016.

**Employment Agreement**

The Alliance entered into an employment agreement with an executive officer that expires in May 2019. Under the terms of the agreement, the Alliance is to pay the executive officer amounts for compensation, benefits and allowances, unless the Alliance terminates the agreement for cause. If the Alliance terminates the agreement for reasons other than cause, the executive officer is entitled to an amount equal to eight months of the then-current annual salary.

**Concentration of Cash and Cash Equivalents**

The Alliance maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation insured limit of $250,000 per depositor per institution. The Alliance monitors the creditworthiness of its financial institutions and has not experienced, nor does it anticipate, any credit losses on its cash and cash equivalents.

**Office of Management and Budget Uniform Guidance**

The Alliance has instructed its independent auditors to audit its applicable federal programs for the year ended December 31, 2016, in compliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal or state agencies of the independent auditor's reports for the year ended December 31, 2016, will not have a material effect on the Alliance's financial position as of December 31, 2016, or its results of operations for the year then ended.

**Indirect Cost Reimbursement**

All of the Alliance's federal awards allow for indirect cost recovery. Indirect costs billed under the Alliance's major federal programs are based upon the predetermined indirect cost rate last approved by the U.S. Department of the Interior or the negotiated rate per the respective contracts. Management believes that matters arising from the review by the federal agency of its indirect cost rate will not have a material effect on the Alliance's financial position.

**Continued**

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs or purposes, and for specified times, as of December 31, 2016:

| | |
|---|---|
| Purpose restricted: | |
| Americas Conference | $ 100,000 |
| Fellowship Program | 95,000 |
| Ford W. Bell Fellowship for Museums and P-12 Education | 94,909 |
| Audience Building Program | 31,692 |
| Diversity | 29,963 |
| Total Purpose Restricted | 351,564 |
| Time Restricted | 219,550 |
| Total Temporarily Restricted Net Assets | $ 571,114 |

11. Endowment Funds

The Alliance's endowment consists of donor-restricted funds and board-designated matching funds contributed to the Alliance in support of its accreditation program and other professional standards initiatives.

**Interpretation of Relevant Law**

The Alliance's Board of Directors has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act of 2006 (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 Alliance 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 Alliance in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Alliance considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Alliance and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.

**Continued**

11. Endowment Funds (continued)

**Interpretation of Relevant Law (continued)**

- Other resources of the Alliance.
- The investment policies of the Alliance.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Alliance to retain as a fund of perpetual duration. As of December 31, 2016, the amount representing donor-restricted endowment net assets underwater totaled $9,382.

**Return Objectives and Risk Parameters**

The Alliance has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to achieve a balanced return of current income for program support and modest capital appreciation. The Alliance expects its endowment funds, over time, to provide an annual average rate of return of approximately 2% over the Consumer Price Index and 1% over the Treasury Bill Index. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Alliance relies on a return strategy in which investment returns are achieved through current yield (interest and dividends). The Alliance's current asset allocation for board-designated and permanently restricted endowment funds targets a composition of a maximum of 70% fixed-income-based investments and 60% equities.

**Spending Policy**

The Board of Directors authorizes spending of the cumulative investment return generated by the donor-restricted endowment funds primarily based on the purpose of the donor-restricted endowment fund, i.e., to support museum accreditation activities and ensure the duration and preservation of the fund. Available funds may be distributed annually up to 5% of the total market value based upon a three-year rolling average. The spending percentage is reviewed annually by the Board of Directors and adjusted accordingly.

11. Endowment Funds (continued)

As of December 31, 2016, the endowment net asset composition by type of fund was as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment funds: | | | | |
| Donor-restricted funds | $ (9,381) | $ - | $ 271,315 | $ 261,934 |
| Board-designated funds | 91,353 | - | - | 91,353 |
| Total Funds | $ 81,972 | $ - | $ 271,315 | $ 353,287 |

For the year ended December 31, 2015, changes in endowment net assets were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, January 1, 2016 | $ 77,185 | $ - | $ 271,315 | $ 348,500 |
| Investment return: | | | | |
| Interest and dividends, net of investment expense | 1,547 | 5,435 | - | 6,982 |
| Net realized and unrealized gains | 3,632 | 12,767 | - | 16,399 |
| Total Investment Return | 5,179 | 18,202 | - | 23,381 |
| Contributions | - | - | - | - |
| Amount appropriated for expenditure | (392) | (18,202) | - | (18,594) |
| Endowment Net Assets, December 31, 2016 | $ 81,972 | $ - | $ 271,315 | $ 353,287 |

**Continued**

11. Endowment Funds (continued)

| | |
|---|---|
| Permanently restricted net assets: | |
| The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA | $ 271,315 |

12. Income Taxes

The Alliance is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. However, the Alliance is subject to federal and District of Columbia income taxes on its unrelated business activities. The Alliance's primary source of unrelated business income is advertising in its periodicals and in its online job posting forum.

The Alliance has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Alliance evaluated its uncertainty in income taxes for the year ended December 31, 2016, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Alliance files tax returns. It is the Alliance's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense

13. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

14. Subsequent Events

The Alliance's management has evaluated events and transactions for potential recognition or disclosure through April 19, 2017, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.

# SUPPLEMENTAL INFORMATION

AMERICAN ALLIANCE OF MUSEUMS

**SCHEDULE OF FUNCTIONAL EXPENSES**
**For the Year Ended December 31, 2016**
**(With Summarized Financial Information for the Year Ended December 31, 2015)**

| | Program Services | | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Meetings and Professional Education | Field-Wide Services | Publications and Business Enterprises | Membership | Advocacy | Center for the Future of Museums | Total Program Services | Management and General | Development and Fundraising | 2016 Total | 2015 Total |
| Salaries | $ 999,496 | $ 529,497 | $ 279,615 | $ 490,372 | $ 366,992 | $ 285,709 | $ 2,951,681 | $ 1,267,864 | $ 301,700 | $ 4,521,245 | $ 4,422,789 |
| Contractors | 485,828 | 63,394 | 158,647 | 53,310 | 26,926 | 7,347 | 795,452 | 362,477 | 35,363 | 1,193,292 | 1,486,087 |
| Occupancy | - | - | - | - | - | - | - | 945,452 | 590 | 946,042 | 910,047 |
| Subgrants – federal funds | - | 547,796 | - | - | - | - | 547,796 | - | - | 547,796 | 791,165 |
| Food and beverage | 432,176 | 20,353 | 48 | 3,928 | 43,500 | 76 | 500,081 | 13,090 | 9,514 | 522,685 | 440,718 |
| Supplies, equipment and equipment rental | 289,496 | 2,013 | 991 | 6,282 | 9,252 | 1,944 | 309,978 | 105,731 | 912 | 416,621 | 479,179 |
| Travel | 69,741 | 176,991 | 159 | 10,753 | 3,731 | 8,787 | 270,162 | 34,432 | 7,422 | 312,016 | 426,040 |
| Depreciation and amortization | - | - | - | - | - | - | - | 296,738 | - | 296,738 | 273,962 |
| Printing, postage and freight | 17,847 | 3,720 | 134,241 | 113,990 | 5,254 | 4,981 | 280,033 | 10,427 | 2,091 | 292,551 | 325,725 |
| Bank fees | - | - | - | - | - | - | - | 259,713 | - | 259,713 | 225,444 |
| Cost of goods sold | - | - | 166,577 | - | - | - | 166,577 | - | - | 166,577 | 114,523 |
| Communications | 40,310 | 146 | 24,047 | 652 | 1,946 | 369 | 67,470 | 54,511 | 29 | 122,010 | 129,427 |
| Scholarships and awards | 5,950 | 41,300 | - | 33,225 | - | 5,200 | 85,675 | - | 5,425 | 91,100 | 123,090 |
| Professional development | 830 | 1,234 | 2,035 | 1,589 | 56,717 | 3,135 | 65,540 | 14,810 | 1,822 | 82,172 | 52,920 |
| Insurance | 10,237 | - | - | - | - | - | 10,237 | 28,647 | - | 38,884 | 40,082 |
| Other expenses | - | - | - | - | - | - | - | 14,980 | - | 14,980 | 22,230 |
| Overhead expense | 1,099,753 | 648,303 | 358,349 | 333,913 | 240,495 | 148,486 | 2,829,299 | (2,999,912) | 170,613 | - | - |
| TOTAL EXPENSES | $ 3,451,664 | $ 2,034,747 | $ 1,124,709 | $ 1,048,014 | $ 754,813 | $ 466,034 | $ 8,879,981 | $ 408,960 | $ 535,481 | $ 9,824,422 | $ 10,263,428 |