

AMERICAN ALLIANCE OF MUSEUMS

**FINANCIAL STATEMENTS AND
UNIFORM GUIDANCE REPORTS**

YEAR ENDED DECEMBER 31, 2017

**AMERICAN ALLIANCE OF MUSEUMS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Alliance of Museums
Arlington, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of American Association of Museums dba: American Alliance of Museums (the Alliance), which comprise the statement of financial position as of December 31, 2017, 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.

Auditors' 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 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 auditors' 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 Alliance of Museums as of December 31, 2017, 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.

Report on Supplementary Information

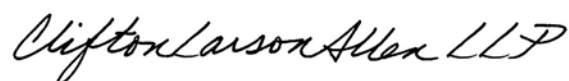
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of functional expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2018, on our consideration of American Alliance of Museums' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of American Alliance of Museums' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Alliance of Museums' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The 2016 financial statements of American Alliance of Museums were previously audited by other auditors whose report dated April 19, 2017, expressed an unmodified audit opinion on those audited financial statements. In our opinion, summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



CliftonLarsonAllen LLP

Arlington, Virginia
April 13, 2018

AMERICAN ALLIANCE OF MUSEUMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016)

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 534,372	\$ 789,122
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$71,049 and \$68,857, Respectively	180,078	273,867
Pledges Receivable	256,500	100,000
Grants and Contracts Receivable	105,462	163,612
Inventory	68,421	87,992
Prepaid Expenses and Deposits	199,441	187,341
Investments	3,709,919	3,267,540
Property and Equipment, Net	1,717,651	1,757,017
Total Assets	\$ 6,771,844	\$ 6,626,491
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 396,526	\$ 370,580
Deferred Dues	1,765,654	1,734,899
Deferred Revenue	709,529	960,736
Funds Held on Behalf of Others	39,136	40,500
Deferred Rent and Leasehold Incentive Liability	1,538,804	1,494,950
Total Liabilities	4,449,649	4,601,665
NET ASSETS		
Unrestricted:		
Undesignated	1,305,970	1,100,426
Board Designated	94,934	81,971
Total Unrestricted Net Assets	1,400,904	1,182,397
Temporarily Restricted	649,976	571,114
Permanently Restricted	271,315	271,315
Total Net Assets	2,322,195	2,024,826
Total Liabilities and Net Assets	\$ 6,771,844	\$ 6,626,491

See accompanying Notes to Financial Statements.

**AMERICAN ALLIANCE OF MUSEUMS
STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING REVENUE AND SUPPORT					
Membership Dues	\$ 3,327,100	\$ -	\$ -	\$ 3,327,100	\$ 3,313,207
Contributions and Sponsorships	655,638	751,331	-	1,406,969	944,873
Exhibit and Other Fees	1,349,787	-	-	1,349,787	1,292,568
Registrations	1,246,296	-	-	1,246,296	1,775,275
Grants and Contracts	996,374	-	-	996,374	1,125,238
Advertising Income	675,123	-	-	675,123	712,140
Accreditation Fees	344,575	-	-	344,575	354,075
Royalties	138,837	-	-	138,837	153,165
Publication Sales	156,678	-	-	156,678	176,920
Other	77,063	-	-	77,063	173,270
Subscriptions	38,817	-	-	38,817	28,291
Appropriation of Accumulated Earnings	-	20,457	-	20,457	18,594
Net Assets Released from Restrictions:					
Released from Purpose Restrictions	495,824	(495,824)	-	-	-
Released from Time Restrictions	219,550	(219,550)	-	-	-
Total Operating Revenue and Support	9,721,662	56,414	-	9,778,076	10,067,616
OPERATING EXPENSES					
Program Services:					
Field-Wide Services	2,131,987	-	-	2,131,987	2,034,747
Meetings and Professional Education	3,788,054	-	-	3,788,054	3,657,124
Membership	1,003,952	-	-	1,003,952	1,048,014
Publications and Business Enterprises	796,703	-	-	796,703	1,124,709
Advocacy	1,001,289	-	-	1,001,289	754,813
Center for the Future of Museums	536,548	-	-	536,548	466,034
Total Program Services	9,258,533	-	-	9,258,533	9,085,441
Supporting Services:					
Management and General	125,829	-	-	125,829	203,500
Development and Fundraising	508,231	-	-	508,231	535,481
Total Supporting Services	634,060	-	-	634,060	738,981
Total Operating Expenses	9,892,593	-	-	9,892,593	9,824,422
Change in Net Assets from Operations	(170,931)	56,414	-	(114,517)	243,194
NONOPERATING INCOME (EXPENSE)					
Investment Income, Net	389,438	42,905	-	432,343	173,883
Appropriation of Accumulated Earnings	-	(20,457)	-	(20,457)	(18,594)
Total Nonoperating Income (Expense)	389,438	22,448	-	411,886	155,289
CHANGE IN NET ASSETS	218,507	78,862	-	297,369	398,483
Net Assets - Beginning of Year	1,182,397	571,114	271,315	2,024,826	1,626,343
NET ASSETS - END OF YEAR	\$ 1,400,904	\$ 649,976	\$ 271,315	\$ 2,322,195	\$ 2,024,826

See accompanying Notes to Financial Statements.

**AMERICAN ALLIANCE OF MUSEUMS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 297,369	\$ 398,483
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	283,241	296,738
Allowance for Inventory Obsolescence	1,903	79,603
Net Realized (Gains) Losses on Sales of Investments	(77,377)	27,614
Net Unrealized Gains on Investments	(311,808)	(166,631)
(Increase) Decrease in Assets:		
Accounts Receivable	91,886	76,647
Pledges Receivable	(156,500)	57,500
Grants and Contracts Receivable	58,150	(133,114)
Inventory	19,571	70,668
Prepaid Expenses and Deposits	(12,100)	79,329
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	25,946	(115,154)
Deferred Dues	30,755	(75,885)
Deferred Revenue	(251,207)	(41,930)
Funds Held on Behalf of Others	(1,364)	-
Deferred Rent and Leasehold Incentive Liability	43,854	63,524
Net Cash Provided by Operating Activities	<u>42,319</u>	<u>617,392</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(243,875)	(189,145)
Proceeds from Sales of Investments	718,602	454,258
Purchases of Investments	(771,796)	(509,428)
Net Cash Used by Investing Activities	<u>(297,069)</u>	<u>(244,315)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(254,750)	373,077
Cash and Cash Equivalents - Beginning of Year	<u>789,122</u>	<u>416,045</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 534,372</u>	<u>\$ 789,122</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Taxes Paid	<u>\$ 67,597</u>	<u>\$ 40,305</u>

See accompanying Notes to Financial Statements.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 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 nonprofit organization headquartered in Arlington, Virginia. 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 consist primarily of supporting contributions pledged by members and sponsors who are geographically located in the host city of the Alliance's upcoming annual meeting, and/or commit to fund an Alliance major program or activity. 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 net realizable value. Items that are deemed nonsalable are charged to the allowance for obsolescence in the period deemed nonsalable.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are composed of money market funds, 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.

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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

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.

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. Grants and contributions that are received and spent in the same year are considered unrestricted.

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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 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.

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 Virginia 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 follows the accounting standard regarding the recognition and measurement of uncertain tax positions. The Association evaluated its tax positions and determined that its tax positions are more-likely-than-not to be sustained on examination.

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 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.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassifications

Certain amounts in prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications have had no effect on previously reported net assets or changes in net asset amounts.

Subsequent Events

The Alliance's management has evaluated events and transactions for potential recognition or disclosure through April 13, 2018, the date the financial statements were available to be issued.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 PLEDGES, GRANTS, AND CONTRACTS RECEIVABLE

As of December 31, 2017, 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.

NOTE 3 INVESTMENTS

Investments consisted of the following at fair value as of December 31, 2017:

Equity Mutual Funds	\$ 2,126,520
Fixed-income Mutual Funds	1,550,987
Money Market Funds	32,412
Total	<u>\$ 3,709,919</u>

Investments, by net asset composition, consisted of the following as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investments	<u>\$ 3,438,604</u>	<u>\$ -</u>	<u>\$ 271,315</u>	<u>\$ 3,709,919</u>

Investment income, net of investment expenses, consisted of the following for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Total
Interest and Dividends	\$ 64,890	\$ 7,887	\$ 72,777
Realized Gain	71,596	5,781	77,377
Unrealized Gain	279,456	32,352	311,808
Investment Expenses	(26,504)	(3,115)	(29,619)
Total	<u>\$ 389,438</u>	<u>\$ 42,905</u>	<u>\$ 432,343</u>

NOTE 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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

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.

The following table summarizes the Alliance's assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Equity Mutual Funds:				
Large Cap Growth	\$ 877,764	\$ -	\$ -	\$ 877,764
Large Cap Value	877,764	-	-	877,764
International Equity	370,992	-	-	370,992
Fixed Income Mutual Funds:				
Long-Term Bond	57,349	-	-	57,349
Intermediate-Term Bond	382,612	-	-	382,612
Short-Term Bond	366,829	-	-	366,829
Fixed Income Blend	744,197	-	-	744,197
Money Market Funds	32,412	-	-	32,412
Total	<u>\$ 3,709,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,709,919</u>

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

Money market funds, equity and fixed-income mutual funds – Value based on quoted prices in active markets.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION

The Alliance held the following property and equipment as of December 31, 2017:

Software	\$ 1,156,862
Furniture and Equipment	555,578
Leasehold Improvements	<u>1,275,047</u>
Less: Accumulated Depreciation and Amortization	<u>(1,269,836)</u>
Total	<u><u>\$ 1,717,651</u></u>

Depreciation and amortization expense totaled \$283,241 for the year ended December 31, 2017.

NOTE 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 July 31, 2018. The Alliance uses this line of credit for two reasons: 1) \$547,368 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, 2017. For the year ended December 31, 2017, 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.

NOTE 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 \$152,593 for the year ended December 31, 2017.

NOTE 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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 OPERATING LEASES (CONTINUED)

Washington, DC, Office Lease (Continued)

The Alliance entered into a sublease arrangement for its office space that commenced on October 20, 2016, and extends through December 31, 2020. 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.

Arlington, Virginia, Office Lease

On April 1, 2015, the Alliance signed a noncancelable operating lease for office and storage space in Arlington, Virginia, 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 Alliance's 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 provided 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 accounting principles generally accepted in the United States of America, 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 office equipment leases expire on various dates through 2018.

Future minimum lease rental payments under these operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 695,607
2019	716,476
2020	737,970
2021	760,109
2022	782,912
Thereafter	7,255,272
Total	<u>\$ 10,948,346</u>

Rent expense totaled \$840,104 for the year ended December 31, 2017.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 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 2020. The agreements contain various clauses whereby the Alliance is liable for 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 \$2,810,000 as of December 31, 2017.

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.

Market Risk

The Alliance invests in a variety of investments. These investments are exposed to various risks, such as fluctuations in market value and credit risk. It is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

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, 2017, 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 auditors' reports for the year ended December 31, 2017, will not have a material effect on the Alliance's financial position as of December 31, 2017, or its results of operations for the year then ended.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 COMMITMENTS AND RISK (CONTINUED)

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.

NOTE 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, 2017:

Purpose Restricted:	
Audience Building Program	\$ 100,000
Fellowship Program	100,000
Museum Technology Leadership Convenings	72,600
Museum Economic Impact Analysis	41,152
Total Purpose Restricted	<u>313,752</u>
Time Restricted	<u>336,224</u>
Total	<u><u>\$ 649,976</u></u>

NOTE 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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law (Continued)

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.
- 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. There were no such deficiencies as of December 31, 2017.

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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 ENDOWMENT FUNDS (CONTINUED)

As of December 31, 2017, the endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2017	\$ 81,971	\$ -	\$ 271,315	\$ 353,286
Interest and Dividends, Net of Investment Expense	1,442	4,772	-	6,214
Net Realized and Unrealized Gains	<u>11,521</u>	<u>38,133</u>	<u>-</u>	<u>49,654</u>
Total Investment Return	12,963	42,905	-	55,868
Contributions Amount Appropriate for Expenditure	-	(20,457)	-	(20,457)
Endowment Net Assets, December 31, 2017	<u>\$ 94,934</u>	<u>\$ 22,448</u>	<u>\$ 271,315</u>	<u>\$ 388,697</u>
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				<u>\$ 271,315</u>

**AMERICAN ALLIANCE OF MUSEUMS
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)**

	Program Services						Supporting Services			2017 Total	2016 Total
	Field-Wide Services	Meetings and Professional Education	Membership	Publications and Business Enterprises	Advocacy	Center for the Future of Museums	Total Program Services	Management and General	Development and Fundraising		
Salaries	\$ 583,334	\$ 1,143,618	\$ 481,025	\$ 218,282	\$ 388,188	\$ 316,860	\$ 3,131,307	\$ 1,140,834	\$ 310,946	\$ 4,583,087	\$ 4,521,245
Contractors	246,810	572,034	22,614	164,252	161,176	31,186	1,198,072	318,244	29,399	1,545,715	1,193,292
Occupancy	-	89,436	-	-	3,871	195	93,502	746,602	-	840,104	946,042
Subgrants - Federal Funds	356,033	-	-	-	-	-	356,033	-	-	356,033	547,796
Travel	179,388	149,783	14,573	718	2,770	15,730	362,962	31,530	12,835	407,327	312,016
Food and Beverage	17,893	273,061	4,442	160	70,121	226	365,903	18,617	61	384,581	522,685
Printing, Postage, and Freight	4,372	34,262	130,387	126,386	14,272	10,963	320,642	9,839	3,449	333,930	292,551
Supplies, Equipment, and Equipment Rental	4,000	326,754	6,298	6,495	14,699	3,051	361,297	106,344	268	467,909	416,621
Depreciation and Amortization	-	-	-	-	-	-	-	283,241	-	283,241	296,738
Bank Fees	-	-	-	63	-	-	63	267,835	-	267,898	259,713
Other Expenses	49	-	-	15	1,025	128	1,217	25,811	-	27,028	14,980
Communications	184	40,229	2,403	24,000	2,318	272	69,406	52,375	34	121,815	122,010
Cost of Goods Sold	-	-	-	21,054	-	-	21,054	-	-	21,054	166,577
Professional Development	360	4,149	514	1,616	49,185	575	56,399	19,350	2,182	77,931	82,172
Scholarships and Awards	47,130	33,000	47,250	-	-	-	127,380	3,901	-	131,281	91,100
Insurance	3,470	10,744	-	-	-	-	14,214	29,445	-	43,659	38,884
Total Expenses Prior to Allocation	1,443,023	2,677,070	709,506	563,041	707,625	379,186	6,479,451	3,053,968	359,174	9,892,593	9,824,422
Allocation of Management and General Expense	688,964	1,110,984	294,446	233,662	293,664	157,362	2,779,082	(2,928,139)	149,057	-	-
Total Expenses After Allocation	<u>\$ 2,131,987</u>	<u>\$ 3,788,054</u>	<u>\$ 1,003,952</u>	<u>\$ 796,703</u>	<u>\$ 1,001,289</u>	<u>\$ 536,548</u>	<u>\$ 9,258,533</u>	<u>\$ 125,829</u>	<u>\$ 508,231</u>	<u>\$ 9,892,593</u>	<u>\$ 9,824,422</u>

**AMERICAN ALLIANCE OF MUSEUMS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF STATE				
Museums and Community Collaborations Abroad	19.145	N/A	\$ 356,033	\$ 456,278
Total U.S. Department of State			356,033	456,278
INSTITUTE OF MUSEUM AND LIBRARY SERVICES				
Museum Assessment Program	45.312	N/A	-	540,096
Total Institute of Museum and Library Services			-	540,096
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 356,033	\$ 996,374

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

Cost Principles

Federal expenditures were recognized following the cost principles contained in OMB Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). The Alliance has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance as the Alliance already has a negotiated indirect cost rate with the federal government.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
American Alliance of Museums
Arlington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the American Alliance of Museums (the Alliance), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Alliance's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

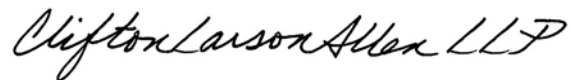
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alliance's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Alliance's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Arlington, Virginia
April 13, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
American Alliance of Museums
Arlington, Virginia

Report on Compliance for Each Major Federal Program

We have audited American Alliance of Museums' (Alliance) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Alliance's major federal programs for the year ended December 31, 2017. The Alliance's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Alliance's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Alliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Alliances' compliance.

Opinion on Each Major Federal Program

In our opinion, American Alliance of Museums complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Alliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Alliance's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Arlington, Virginia
April 13, 2018

**AMERICAN ALLIANCE OF MUSEUMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? _____ yes X none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of Major Federal Programs

CFDA Number(s)

45.312

Name of Federal Program or Cluster

Museum Assessment Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes _____ no

**AMERICAN ALLIANCE OF MUSEUMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

Section II – Financial Statement Findings

None required to be reported.

Section III – Findings and Questioned Costs – Major Federal Programs

None required to be reported.

**AMERICAN ALLIANCE OF MUSEUMS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2017**

Section I – Audit Findings (Major Program – Uniform Guidance)

No findings were reported.

Section II – Corrective Action Plan

Not applicable.