

AMERICAN ALLIANCE OF MUSEUMS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

**AMERICAN ALLIANCE OF MUSEUMS
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YEAR ENDED DECEMBER 31, 2018**

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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, 2018, and the related statements of activities, functional expenses, 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, 2018, 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.

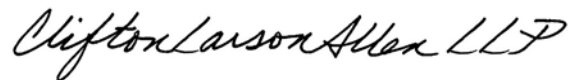
Report on Summarized Comparative Information

We have previously audited American Alliance of Museums' 2017 financial statements, and our report dated April 13, 2018, expressed an unmodified opinion of those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, management has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Arlington, Virginia
May 10, 2019

**AMERICAN ALLIANCE OF MUSEUMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2017)**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 2,383,716	\$ 534,372
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$34,431 and \$71,049, Respectively	55,553	180,078
Pledges Receivable	1,983,856	256,500
Grants and Contracts Receivable	282,603	105,462
Inventory	55,208	68,421
Prepaid Expenses and Deposits	315,652	199,441
Investments	3,751,703	3,709,919
Property and Equipment, Net	1,542,029	1,717,651
Total Assets	\$ 10,370,320	\$ 6,771,844
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 393,637	\$ 396,526
Deferred Dues	1,918,440	1,765,654
Deferred Revenue	809,241	709,529
Funds Held on Behalf of Others	39,136	39,136
Deferred Rent and Leasehold Incentive Liability	1,562,397	1,538,804
Total Liabilities	4,722,851	4,449,649
NET ASSETS		
Without Donor Restrictions:		
Undesignated	996,147	1,305,970
Board Designated	63,979	94,934
Total Without Donor Restrictions Net Assets	1,060,126	1,400,904
With Donor Restrictions:		
Purpose and Time Restricted	4,316,329	649,976
Donor Restricted Endowment Fund	271,014	271,315
Total With Donor Restrictions Net Assets	4,587,343	921,291
Total Net Assets	5,647,469	2,322,195
Total Liabilities and Net Assets	\$ 10,370,320	\$ 6,771,844

See accompanying Notes to Financial Statements.

**AMERICAN ALLIANCE OF MUSEUMS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
REVENUE AND SUPPORT				
Membership Dues	\$ 3,393,288	\$ -	\$ 3,393,288	\$3,327,100
Contributions and Sponsorships	40,534	4,704,311	4,744,845	1,406,969
Exhibit and Other Fees	1,333,818	-	1,333,818	1,349,787
Registrations	1,233,061	-	1,233,061	1,246,296
Grants and Contracts	446,078	-	446,078	996,374
Advertising Income	626,732	-	626,732	675,123
Accreditation Fees	323,600	-	323,600	344,575
Royalties	124,728	-	124,728	138,837
Publication Sales	95,894	-	95,894	156,678
Other	74,075	-	74,075	77,063
Subscriptions	40,514	-	40,514	38,817
Appropriation of Accumulated Earnings	-	35,242	35,242	20,457
Net Assets Released from Restrictions:				
Released from Purpose Restrictions	353,070	(353,070)	-	-
Released from Time Restrictions	671,222	(671,222)	-	-
Total Revenue and Support	<u>8,756,614</u>	<u>3,715,261</u>	<u>12,471,875</u>	<u>9,778,076</u>
EXPENSES				
Program Services:				
Field-Wide Services	1,241,009	-	1,241,009	2,131,987
Meetings and Professional Education	3,603,919	-	3,603,919	3,788,054
Membership	760,730	-	760,730	1,003,952
Publications and Business Enterprises	854,224	-	854,224	796,703
Advocacy	586,094	-	586,094	1,001,289
Center for the Future of Museums	436,029	-	436,029	536,548
Total Program Services	<u>7,482,005</u>	<u>-</u>	<u>7,482,005</u>	<u>9,258,533</u>
Supporting Services:				
Management and General	821,456	-	821,456	125,829
Development and Fundraising	642,012	-	642,012	508,231
Total Supporting Services	<u>1,463,468</u>	<u>-</u>	<u>1,463,468</u>	<u>634,060</u>
Total Expenses	<u>8,945,473</u>	<u>-</u>	<u>8,945,473</u>	<u>9,892,593</u>
Change in Net Assets Before Other Items	(188,859)	3,715,261	3,526,402	(114,517)
OTHER ITEMS				
Investment (Loss) Income, Net	(151,919)	(13,967)	(165,886)	432,343
Appropriation of Accumulated Earnings	-	(35,242)	(35,242)	(20,457)
Total Other Items	<u>(151,919)</u>	<u>(49,209)</u>	<u>(201,128)</u>	<u>411,886</u>
CHANGE IN NET ASSETS	(340,778)	3,666,052	3,325,274	297,369
Net Assets - Beginning of Year	<u>1,400,904</u>	<u>921,291</u>	<u>2,322,195</u>	<u>2,024,826</u>
NET ASSETS - END OF YEAR	<u>\$ 1,060,126</u>	<u>\$4,587,343</u>	<u>\$ 5,647,469</u>	<u>\$2,322,195</u>

See accompanying Notes to Financial Statements.

**AMERICAN ALLIANCE OF MUSEUMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Program Services						Supporting Services		2018 Total	2017 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	\$ 478,832	\$ 1,103,306	\$ 358,997	\$ 240,288	\$ 198,499	\$ 235,619	\$ 2,615,541	\$ 1,239,801	\$ 395,190	\$ 4,250,532	\$ 4,583,087
Contractors	14,117	473,444	25,392	225,085	75,014	54,423	867,475	353,658	56,330	1,277,463	1,545,715
Occupancy	3,822	133,192	-	-	250	-	137,264	753,923	-	891,187	840,104
Subgrants - Federal Funds	-	-	-	-	-	-	-	-	-	-	356,033
Travel	172,919	147,031	10,812	250	5,307	7,267	343,586	23,211	7,438	374,235	407,327
Food and Beverage	32,052	382,918	2,318	-	65,559	1,114	483,961	7,283	83	491,327	384,581
Printing, Postage, and Freight	3,086	25,259	109,665	98,633	5,126	13,467	255,236	9,055	4,144	268,435	333,930
Supplies, Equipment, and Equipment Rental	14,150	236,404	9,244	852	21,592	228	282,470	85,019	-	367,489	467,909
Depreciation and Amortization	-	-	-	-	-	-	-	319,030	-	319,030	283,241
Bank Fees	-	721	-	742	-	-	1,463	280,904	516	282,883	267,898
Other Expenses	134,429	16,950	32,311	11,614	-	-	195,304	(109,017)	-	86,287	27,028
Communications	178	58,398	851	24,374	1,701	130	85,632	49,459	-	135,091	121,815
Cost of Goods Sold	-	-	-	14,680	-	-	14,680	-	-	14,680	21,054
Professional Development	-	2,787	1,432	2,225	51,479	682	58,605	18,328	1,249	78,182	77,931
Scholarships and Awards	45,400	20,250	-	-	-	2,900	68,550	1,000	-	69,550	131,281
Insurance	-	9,778	-	-	-	-	9,778	29,324	-	39,102	43,659
Total Expenses Prior to Allocation	898,985	2,610,438	551,022	618,743	424,527	315,830	5,419,545	3,060,978	464,950	8,945,473	9,892,593
Allocation of Management and General Expense	342,024	993,481	209,708	235,481	161,567	120,199	2,062,460	(2,239,522)	177,062	-	-
Total Expenses After Allocation	\$ 1,241,009	\$ 3,603,919	\$ 760,730	\$ 854,224	\$ 586,094	\$ 436,029	\$ 7,482,005	\$ 821,456	\$ 642,012	\$ 8,945,473	\$ 9,892,593

See accompanying Notes to Financial Statements.

AMERICAN ALLIANCE OF MUSEUMS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 3,325,274	\$ 297,369
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	319,030	283,241
Allowance for Inventory Obsolescence	268	1,903
Net Realized Gains on Sales of Investments	(414,440)	(77,377)
Net Unrealized Loss (Gain) on Investments	642,989	(311,808)
(Increase) Decrease in Assets:		
Accounts Receivable	124,257	91,886
Pledges Receivable	(1,727,356)	(156,500)
Grants and Contracts Receivable	(177,141)	58,150
Inventory	13,213	19,571
Prepaid Expenses and Deposits	(116,211)	(12,100)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(2,889)	25,946
Deferred Dues	152,786	30,755
Deferred Revenue	99,712	(251,207)
Funds Held on Behalf of Others	-	(1,364)
Deferred Rent and Leasehold Incentive Liability	23,593	43,854
Net Cash Provided by Operating Activities	2,263,085	42,319
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(143,408)	(243,875)
Proceeds from Sales of Investments	749,070	718,602
Purchases of Investments	(1,019,403)	(771,796)
Net Cash Used by Investing Activities	(413,741)	(297,069)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,849,344	(254,750)
Cash and Cash Equivalents - Beginning of Year	534,372	789,122
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,383,716	\$ 534,372
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Taxes Paid	\$ 68,139	\$ 67,597

See accompanying Notes to Financial Statements.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018**

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. 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:

Net Assets Without Donor Restrictions – Represent the portion of expendable funds that are available for support of the Alliance's operations. Net assets without donor restrictions 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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

Net Assets With Donor Restrictions – Represent amounts that are used for a particular purpose or within a specific time period as specified by donors, and they represent resources that are to be held in perpetuity by the Alliance, as stipulated by donors, with only the investment earnings 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 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.

Contributions and sponsorships are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. Contributions and sponsorships are considered available for 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 with donor restrictions support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restrictions net assets are reclassified to without donor restrictions 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 grants and contracts 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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Accreditation fees represent annual fees billed to all museums participating in the accreditation program. Accreditation fees are recognized as revenue in the period to which the accreditation relates. 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.

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. Salaries and administrative costs and occupancy have been allocated between program services, management and general, and development and fundraising based on level of effort.

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.

Measure of Operations

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

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017, 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.

Change in Accounting Principle

During the year ended December 31, 2018, the Alliance adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between nonprofit entities. A key change required by ASU 2016-14 is the net asset class used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions. Amounts previously reported as temporarily restricted and permanently restricted have been combined into one class of with donor restriction net asset class. A footnote on liquidity has also been disclosed. Investment gain (loss) is reported net of brokerage fees. Lastly, expenses are reported by natural and functional classifications in a statement included with the basic financial statements.

Upcoming Accounting Standards Update

Revenue from Contracts with Customers — In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods.

The standard will be effective for the Alliance's financial statements for annual reporting periods beginning after December 15, 2018. Management is evaluating the effect of the amended revenue recognition guidance on the entity's financial statements.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upcoming Accounting Standards Update (Continued)

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made — In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The guidance provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The guidance should be applied on a modified prospective basis, unless an entity elects a retrospective basis. The standard will be effective for annual reporting periods beginning after December 15, 2018.

Liquidity

As part of the Alliance's liquidity management, it invests cash in excess of daily requirements in short-term investment within its portfolio. The Alliance's financial assets available within one year of the statement of financial position date for general expenditures were as follows as of December 31, 2018:

Cash and Cash Equivalents	\$ 2,383,716
Receivables, Net	2,322,012
Total	\$ 4,705,728

Subsequent Events

The Alliance's management has evaluated events and transactions for potential recognition or disclosure through May 10, 2019, the date the financial statements were available to be issued.

NOTE 2 PLEDGES, GRANTS, AND CONTRACTS RECEIVABLE

As of December 31, 2018, 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 considered fully collectible. As of December 31, 2018, \$905,957 is due within one year and \$1,360,502 is due within two to five years.

NOTE 3 INVESTMENTS

Investments consisted of the following at fair value as of December 31, 2018:

Equity Mutual Funds	\$ 2,024,138
Fixed-income Mutual Funds	1,649,354
Money Market Funds	78,211
Total	\$ 3,751,703

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 INVESTMENTS (CONTINUED)

Investments, by net asset composition, consisted of the following as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Investments	<u>\$ 3,480,689</u>	<u>\$ 271,014</u>	<u>\$ 3,751,703</u>

Investment income (loss), net of investment expenses, consisted of the following for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and Dividends	\$ 86,211	\$ 9,366	\$ 95,577
Realized Gain	393,135	21,305	414,440
Unrealized Loss	(601,618)	(41,371)	(642,989)
Investment Expenses	(29,647)	(3,267)	(32,914)
Total	<u>\$ (151,919)</u>	<u>\$ (13,967)</u>	<u>\$ (165,886)</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.

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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
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NOTE 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, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
Equity Mutual Funds:				
Large Cap Growth	\$ 835,528	\$ -	\$ -	\$ 835,528
Large Cap Value	800,637	-	-	800,637
International Equity	387,973	-	-	387,973
Fixed Income Mutual Funds:				
Fixed Income Blend	1,649,354	-	-	1,649,354
Money Market Funds	78,211	-	-	78,211
Total	<u>\$ 3,751,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,751,703</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.

NOTE 5 PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION

The Alliance held the following property and equipment as of December 31, 2018:

Software	\$ 1,434,096
Furniture and Equipment	421,754
Leasehold Improvements	<u>1,275,047</u>
Less: Accumulated Depreciation and Amortization	<u>(1,588,868)</u>
Total	<u>\$ 1,542,029</u>

Depreciation and amortization expense totaled \$319,030 for the year ended December 31, 2018.

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, 2019. The Alliance uses this line of credit for two reasons: 1) \$547,638 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 4.58% as of December 31, 2018. For the year ended December 31, 2018, 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.

**AMERICAN ALLIANCE OF MUSEUMS
NOTES TO FINANCIAL STATEMENTS
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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 \$146,132 for the year ended December 31, 2018.

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.

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.

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NOTE 8 OPERATING LEASES (CONTINUED)

Arlington, Virginia, Office Lease (Continued)

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 716,476
2020	737,970
2021	760,109
2022	782,913
2023	806,400
Thereafter	6,448,873
Total	<u>\$ 10,252,741</u>

Rent expense totaled \$891,187 for the year ended December 31, 2018.

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 2021. 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 \$2,858,000 as of December 31, 2018.

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.

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NOTE 9 COMMITMENTS AND RISK (CONTINUED)

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.

Indirect Cost Reimbursement

The majority 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 provisional 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 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following programs or purposes, and for specified times, as of December 31, 2018:

Purpose Restricted:	
Audience Building Program	\$ 135,743
Fellowship Program	100,000
Creative Aging Convenings	239,771
Diversity in Museum Leadership (DEAL)	3,421,244
Museum Economic Impact Analysis	8,447
Children's Museum	8,819
CFM Foresigh Scholarship	1,500
Total Purpose Restricted	<u>3,915,524</u>
Time Restricted	400,805
Total	<u><u>\$ 4,316,329</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.

**AMERICAN ALLIANCE OF MUSEUMS
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DECEMBER 31, 2018**

NOTE 11 ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

The Alliance's Board of Directors has interpreted Virginia'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 net assets with donor restrictions (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 to be held in perpetuity is classified as time or purpose 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.
- 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, 2018, the deficiency was \$301.

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.

**AMERICAN ALLIANCE OF MUSEUMS
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NOTE 11 ENDOWMENT FUNDS (CONTINUED)

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. The Board of Directors distributes funds on an as needed basis for the without donor restrictions fund.

As of December 31, 2018, the endowment net asset composition by type of fund was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, January 1, 2018	\$ 94,934	\$ 293,763	\$ 388,697
Interest and Dividends, Net of Investment Expense	1,963	6,100	8,063
Net Realized and Unrealized Loss	<u>(6,458)</u>	<u>(20,067)</u>	<u>(26,525)</u>
Total Investment Return	(4,495)	(13,967)	(18,462)
Contributions Amount Appropriate for Expenditure	<u>(26,460)</u>	<u>(8,782)</u>	<u>(35,242)</u>
Endowment Net Assets, December 31, 2018	<u>\$ 63,979</u>	<u>\$ 271,014</u>	<u>\$ 334,993</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>