

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

**ASSOCIATION OF FUNDRAISING PROFESSIONALS
AND
AFP FOUNDATION FOR PHILANTHROPY**

December 31, 2018

Association of Fundraising Professionals and AFP Foundation for Philanthropy

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Independent Auditor's Report on the Consolidated Financial Statements

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Association of Fundraising Professionals and AFP Foundation for Philanthropy (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expense, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association of Fundraising Professionals and AFP Foundation for Philanthropy as of December 31, 2018 and 2017, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tate & Tryon
Washington, DC
March 25, 2019

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statements of Financial Position

December 31,	2018	2017
Assets		
Cash and cash equivalents	\$ 5,154,162	\$ 4,824,009
Investments	943,847	994,095
Accounts receivable, net	87,461	92,529
Pledges receivable, net	112,253	95,269
Prepaid expenses and other	374,677	400,059
Inventory	77,012	92,767
Property, equipment, and leasehold improvements, net	1,406,887	753,988
Total assets	\$ 8,156,299	\$ 7,252,716
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 824,345	\$ 609,422
Accrued loss on subleases	560,772	-
Deferred revenue	4,400,446	4,528,366
Deferred rent	906,253	1,102,616
Total liabilities	6,691,816	6,240,404
Net assets (deficit)		
Without donor restrictions	242,376	(219,615)
With donor restrictions	1,222,107	1,231,927
Total net assets	1,464,483	1,012,312
Total liabilities and net assets	\$ 8,156,299	\$ 7,252,716

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statements of Activities

<i>Year Ended December 31,</i>	2018	2017
Activities without donor restrictions		
Revenue and support		
Membership dues	\$ 5,715,081	\$ 5,800,036
Registration fees	3,028,228	3,182,691
Royalty income	1,245,275	1,265,921
Advertising and sponsorships	682,058	646,017
Contributions and grants	522,844	612,625
Exhibitor fees	308,231	305,785
Miscellaneous	63,840	33,977
Donated services	60,000	60,000
Sales of merchandise	51,370	75,764
Sublease rental income	30,141	-
Investment return, net	-	9,111
	11,707,068	11,991,927
Transfer to net assets with donor restrictions	(32,026)	-
Net assets released from donor restrictions	275,196	223,737
	11,950,238	12,215,664
Expense		
Program services		
Professional development	3,005,963	2,821,841
Marketing and communications	2,029,505	2,231,226
Member and chapter services	1,799,029	1,599,776
Public policy, advocacy, and ethics	442,382	522,077
Relevant quality education	371,632	315,966
Inclusion and influence	44,033	33,619
Total program services	7,692,544	7,524,505
Supporting services		
Management and general	3,010,444	3,210,219
Resource development	216,538	194,228
Total supporting services	3,226,982	3,404,447
Total expense	10,919,526	10,928,952
Change in net assets without donor restrictions from operations	1,030,712	1,286,712
Loss on subleases	(568,721)	-
Impairment loss on property and equipment and cumulative effect of change in estimate	-	(535,290)
Change in net assets without donor restrictions	461,991	751,422
Activities with donor restrictions		
Contributions	252,753	137,710
Investment return, net	(19,403)	144,685
Transfer from net assets without donor restrictions	32,026	-
Net assets released from donor restrictions	(275,196)	(223,737)
Change in net assets with donor restrictions	(9,820)	58,658
Change in net assets	452,171	810,080
Net assets, beginning of year	1,012,312	202,232
Net assets, end of year	\$ 1,464,483	\$ 1,012,312

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statements of Functional Expense

Year Ended December 31, 2018

	Program Services						Supporting Services			Consolidated Total	
	Professional Development	Marketing and Communications	Member and Chapter Services	Public Policy, Advocacy, and Ethics	Relevant Quality Education	Inclusion and Influence	Total	Management and General	Resource Development		Total
Salaries	\$ 642,569	\$ 553,802	\$ 402,192	\$ 266,269	\$ -	\$ -	\$ 1,864,832	\$ 1,231,185	\$ 71,942	\$ 1,303,127	\$ 3,167,959
Employee benefits	88,786	78,963	67,702	28,704	-	-	264,155	196,495	-	196,495	460,650
Payroll taxes	52,842	54,240	48,934	14,833	-	-	170,849	64,629	5,693	70,322	241,171
Total salaries and related	784,197	687,005	518,828	309,806	-	-	2,299,836	1,492,309	77,635	1,569,944	3,869,780
Contract and consulting fees	547,180	795,285	421,344	1,294	4,455	-	1,769,558	368,200	99,063	467,263	2,236,821
Conference, meetings and travel	913,649	25,166	115,313	11,591	147,237	-	1,212,956	219,245	21,544	240,789	1,453,745
Occupancy	310,892	166,767	244,048	78,049	-	-	799,756	226,599	-	226,599	1,026,355
Scholarships, grants, and sponsorships	135,683	-	128,846	33,500	201,512	44,033	543,574	44,252	-	44,252	587,826
Bank and credit card fees	87,829	37,943	202,986	3,219	4,527	-	336,504	34,530	-	34,530	371,034
Depreciation	-	-	-	-	-	-	-	215,959	-	215,959	215,959
Printing and design	119,595	64,992	5,095	145	3,121	-	192,948	13,145	1,403	14,548	207,496
Promotion and marketing	23	146,912	49,901	-	118	-	196,954	1,578	3,364	4,942	201,896
Postage and shipping	52,353	82,038	40,796	161	9,606	-	184,954	4,465	1,357	5,822	190,776
Insurance	8,409	-	43,740	-	-	-	52,149	88,875	515	89,390	141,539
Equipment and software	17,157	693	-	-	665	-	18,515	121,018	-	121,018	139,533
Other expenses	26,182	3,156	25,660	-	339	-	55,337	31,103	11,657	42,760	98,097
Office supplies	2,270	109	1,865	1,326	-	-	5,570	59,953	-	59,953	65,523
Dues and subscriptions	544	-	607	3,291	52	-	4,494	58,194	-	58,194	62,688
Cost of merchandise	-	19,439	-	-	-	-	19,439	-	-	-	19,439
Bad debt	-	-	-	-	-	-	-	15,628	-	15,628	15,628
Property and other taxes	-	-	-	-	-	-	-	15,391	-	15,391	15,391
Total expense	\$ 3,005,963	\$ 2,029,505	\$ 1,799,029	\$ 442,382	\$ 371,632	\$ 44,033	\$ 7,692,544	\$ 3,010,444	\$ 216,538	\$ 3,226,982	\$ 10,919,526

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statements of Functional Expense

Year Ended December 31, 2017

	Program Services							Supporting Services			Consolidated Total
	Professional Development	Marketing and Communications	Member and Chapter Services	Public Policy, Advocacy, and Ethics	Relevant Quality Education	Inclusion and Influence	Total	Management and General	Resource Development	Total	
Salaries	\$ 561,035	\$ 697,943	\$ 390,399	\$ 417,296	\$ -	\$ -	\$ 2,066,673	\$ 1,030,246	\$ 67,680	\$ 1,097,926	\$ 3,164,599
Employee benefits	67,237	99,687	46,674	3,129	-	-	216,727	206,048	9,152	215,200	431,927
Payroll taxes	42,362	52,983	50,958	16,246	-	-	162,549	77,804	5,268	83,072	245,621
Total salaries and related	670,634	850,613	488,031	436,671	-	-	2,445,949	1,314,098	82,100	1,396,198	3,842,147
Contract and consulting fees	666,953	715,055	437,010	34,817	1,144	-	1,854,979	591,134	98,228	689,362	2,544,341
Conference, meetings and travel	1,041,655	18,387	102,002	8,556	122,147	8,881	1,301,628	142,636	12,096	154,732	1,456,360
Occupancy	190,329	253,461	325,263	32,782	-	-	801,835	148,045	-	148,045	949,880
Depreciation	-	-	-	-	-	-	-	343,215	-	343,215	343,215
Scholarships, grants, and sponsorships	15,211	-	-	4,019	183,034	24,738	227,002	98,699	-	98,699	325,701
Promotion and marketing	12,721	215,850	13,944	-	922	-	243,437	179	631	810	244,247
Bad debt	-	-	-	-	-	-	-	238,955	-	238,955	238,955
Bank and credit card fees	37,261	40,240	65,973	-	2,863	-	146,337	49,725	267	49,992	196,329
Printing and design	108,853	56,056	6,024	332	3,225	-	174,490	11,893	893	12,786	187,276
Postage and shipping	53,212	36,145	53,068	119	2,446	-	144,990	6,063	13	6,076	151,066
Equipment and software	10,386	1,225	4,185	-	185	-	15,981	117,338	-	117,338	133,319
Insurance	8,340	-	52,783	-	-	-	61,123	54,362	-	54,362	115,485
Other expenses	3,829	181	48,781	2,298	-	-	55,089	15,960	-	15,960	71,049
Dues and subscriptions	1,321	15,786	793	2,483	-	-	20,383	35,446	-	35,446	55,829
Cost of merchandise	-	25,464	-	-	-	-	25,464	6,135	-	6,135	31,599
Office supplies	1,136	2,763	1,919	-	-	-	5,818	19,007	-	19,007	24,825
Property and other taxes	-	-	-	-	-	-	-	17,329	-	17,329	17,329
Total expense	\$ 2,821,841	\$ 2,231,226	\$ 1,599,776	\$ 522,077	\$ 315,966	\$ 33,619	\$ 7,524,505	\$ 3,210,219	\$ 194,228	\$ 3,404,447	\$ 10,928,952

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statements of Cash Flows

Year Ended December 31,	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 452,171	\$ 810,080
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	215,959	343,215
Bad debt expense	15,628	238,955
Impairment loss on property and equipment	-	535,290
Net loss (gain) on investments	34,381	(144,937)
Accrued loss on subleases	560,772	-
Changes in assets and liabilities:		
Accounts receivable	(10,560)	40,205
Pledges receivable	(16,984)	90,414
Prepaid expenses and other	25,382	(86,714)
Inventory	15,755	15,402
Accounts payable and accrued expenses	214,923	110,613
Deferred revenue	(127,920)	264,072
Deferred rent	(196,363)	(165,438)
Total adjustments	730,973	1,241,077
Net cash provided by operating activities	1,183,144	2,051,157
Cash flows from investing activities		
Purchases of property, equipment, and leasehold improvements	(868,858)	(69,591)
Purchases of investments	(560,297)	(171,213)
Proceeds from sale of investments	576,164	259,765
Net cash (used in) provided by investing activities	(852,991)	18,961
Net increase in cash and cash equivalents	330,153	2,070,118
Cash and cash equivalents, beginning of year	4,824,009	2,753,891
Cash and cash equivalents, end of year	\$ 5,154,162	\$ 4,824,009
Supplemental Disclosures of Cash Flow Information		
Donated securities	\$ 4,891	\$ -

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

AFP Canada was incorporated in 2017 to pursue the advancement of philanthropy in Canada; to promote public awareness of the fundraising profession and the value of fundraising professionals to the fundraising process; to foster the development and growth of professional fundraisers committed to the preservation and enhancement of the philanthropic and fundraising processes generally; and to require AFP members' adherence to a Code of Ethical Principles. The activities of AFP Canada are not required to be, and are not, included in these consolidated financial statements.

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

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

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

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

Income tax status: The Association is exempt from the payment of Federal and state income taxes on income other than net unrelated business income under Section 501(c)(6) of the Internal Revenue Code (IRC). The Association incurs unrelated business income tax mainly on its advertising income. There was no income tax expense for the years ended December 31, 2018 and 2017.

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

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Accounts receivable: Accounts receivable consists primarily of amounts owed from customers as a result of the sale of advertising, sponsorships, conference registrations, and publications. Accounts receivable are presented at the gross, or face, amount due to the Organization, less an allowance for uncollectible accounts. The Organization's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances deemed to be uncollectible are written off to bad debt expense to the extent not covered by the allowance. Management has recorded an allowance of \$30,162 and \$22,696, which is its estimated potentially uncollectible accounts receivable, at December 31, 2018 and 2017.

Inventory: Inventory consists of items available for resale or use in future periods and is stated at the lower of cost or market value, using the first-in, first-out method. Management periodically reviews its inventory and writes off slow-moving or obsolete items. All inventory is deemed fully salable at December 31, 2018 and 2017.

Property, Equipment, and Leasehold Improvements: Property, equipment, and leasehold improvements are stated at cost. It is the policy of the Organization to capitalize all purchases of property and equipment greater than or equal to \$5,000 and depreciate/amortize them over the following estimated useful lives using the straight-line method, with no salvage value:

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

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

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

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

Net asset transfer: During the year ended December 31, 2018, \$32,026 was transferred from net assets without donor restrictions to net assets with donor restrictions to reflect Growth in Giving as a fund with donor restrictions.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

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

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

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

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

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

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measure of operations: The Organization excludes from the change in net assets from operations the loss on subleases and the impairment loss on property and equipment and cumulative effect of change in estimate.

Subsequent events: Subsequent events have been evaluated through March 25, 2019, which was the date the consolidated financial statements were available to be issued.

B. CREDIT AND MARKET RISK

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

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

C. INVESTMENTS

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

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

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

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

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

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

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

C. INVESTMENTS - CONTINUED

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

Investments consisted of the following at December 31,:

	2018	2017
Investments, at fair value		
Common stocks	\$ 134,521	\$ 448,910
Mutual funds - equity	127,580	199,450
Mutual funds - fixed income	<u>630,038</u>	<u>343,790</u>
	892,139	992,150
Investments, at cost		
Cash funds	<u>51,708</u>	<u>1,945</u>
	<u>\$ 943,847</u>	<u>\$ 994,095</u>

D. PLEDGES RECEIVABLE

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

	2018	2017
Receivable in less than one year	\$ 79,601	\$ 72,624
Receivable in one to five years	40,004	30,108
Less: Allowance for doubtful accounts and discount to present value	<u>(7,352)</u>	<u>(7,463)</u>
	<u>\$ 112,253</u>	<u>\$ 95,269</u>

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

E. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

During the year ended December 31, 2017, the Organization determined that certain assets were impaired. Specifically, the Organization's website and association management database were deemed to be fully impaired, and therefore, the assets were removed from property, equipment, and leasehold improvements. The Organization made significant improvements and upgrades to these assets in 2018.

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

	2018	2017
Office equipment	\$ 7,826	\$ 7,826
Computer equipment and software	728,267	264,541
Website	277,262	-
Education course development	61,750	-
Leasehold improvements	<u>2,367,274</u>	<u>2,293,205</u>
	3,442,379	2,565,572
Less accumulated depreciation/amortization	<u>(2,035,492)</u>	<u>(1,811,584)</u>
	<u>\$ 1,406,887</u>	<u>\$ 753,988</u>

F. DEFERRED REVENUE

Deferred revenue consisted of the following at December 31,:

	2018	2017
Membership dues	\$ 3,145,877	\$ 3,183,024
International conference	<u>1,254,569</u>	<u>1,345,342</u>
	<u>\$ 4,400,446</u>	<u>\$ 4,528,366</u>

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

G. LIQUIDITY

The following reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions. Amounts not available include amounts set aside as Board designated net assets (see Note H) that could be drawn upon if the governing board approves that action.

	2018	2017
Cash and cash equivalents	\$ 5,154,162	\$ 4,824,009
Investments	943,847	994,095
Accounts receivable	87,461	92,529
Pledges receivable	112,253	95,269
Less amounts expected to be collected after one year	(33,751)	(25,098)
Prepaid expenses and other	<u>374,677</u>	<u>400,059</u>
Financial assets available	6,638,649	6,380,863
Less those unavailable for general expenditures within one year due to:		
Investments held in perpetuity	(556,289)	(556,189)
Subject to expenditure for specified purpose	(665,818)	(675,738)
Board designated net assets	<u>(90,000)</u>	<u>(90,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,326,542</u>	<u>\$ 5,058,936</u>

The Organization has a goal to maintain a liquid reserve in an amount equal to six months of average monthly operating costs, which exclude depreciation, in-kind, and other non-cash expenses. Such average monthly costs were approximately \$887,000 and \$868,000 for the years ended December 31, 2018 and 2017, respectively. The Organization had approximately six months of financial assets available to meet its average monthly operating costs for the years ended December 31, 2018 and 2017. The Organization currently does not have a policy regarding the investment of cash in excess of daily requirements. Additionally, the Organization does not have a line of credit.

H. BOARD DESIGNATED NET ASSETS

Board designated net assets represent an operating reserve, which is designed to provide an internal source of funds for situations such as an unexpected or sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The fund is without donor restrictions and is available for the use of the Association at the direction of its Board. The operating reserve was \$90,000 at December 31, 2018 and 2017.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

I. NET ASSETS WITH DONOR RESTRICTIONS

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

	2018	2017
Endowments given in perpetuity		
International conference speakers	\$ 96,267	\$ 96,267
Skystone Ryan Research prize	71,765	71,765
Campbell scholarship	68,780	68,780
Other	67,836	67,836
Looney Ethics Education	60,463	60,363
Levy Professional Education Endowment	50,000	50,000
Strategic planning	42,241	42,241
International conference scholars	34,445	34,445
Excellence in leadership	29,420	29,420
Staff development	25,628	25,628
Executive Management Institute scholarships	9,444	9,444
	556,289	556,189
Subject to expenditure for specified purpose		
Annual fund and major gifts	144,517	138,786
Endowment interest	249,802	267,136
Levy Professional Education Fund	123,433	156,482
Growth in giving	26,421	-
PAC contributions	121,645	113,334
	665,818	675,738
	\$ 1,222,107	\$ 1,231,927

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

	2018	2017
Program satisfaction		
Annual fund and major gifts	\$ 167,983	\$ 170,142
PAC Contributions	37,013	4,019
Endowment interest	7,495	3,000
Levy Professional Education	25,500	30,000
Growth in giving	37,205	-
Looney Ethics Education	-	2,000
Return of contribution		
International conference scholars	-	14,576
	-	14,576
	\$ 275,196	\$ 223,737

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

I. NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

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

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

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

	2018	2017
Beginning net assets	\$ 823,325	\$ 680,693
Investment return, net	(9,839)	110,158
Contributions	100	2,050
Transfer by donor request of amount within a purposed restricted fund to endowment	-	50,000
Appropriation of endowment assets for expenditure	<u>(7,495)</u>	<u>(19,576)</u>
Ending net assets	<u>\$ 806,091</u>	<u>\$ 823,325</u>

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a balanced portfolio comprised of cash, fixed income securities, and equities. To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

J. DONATED SERVICES

The AFP U.S. Foundation received professional services to conduct a mail and telephone outreach program for the AFP U.S. Foundation's Annual Fund Campaign. The value of the donated services is included in donated services revenue and resource development expense in the consolidated statements of activities and amounted to \$60,000 for the years ended December 31, 2018 and 2017.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

J. DONATED SERVICES - CONTINUED

The Association received professional services related to the annual meeting and international conference. The value of the donated services is included in advertising and sponsorships revenue and professional development expense in the consolidated statements of activities, and amounted to \$125,667 and \$105,740 for the years ended December 31, 2018 and 2017, respectively.

The Association provided \$74,312 and \$141,285 in contributed services to the AFP U.S. Foundation for the years ended December 31, 2018 and 2017, respectively. Additionally, the Association paid \$128,117 and \$98,715 of the AFP U.S. Foundation's expenses during the years ended December 31, 2018 and 2017, respectively. Furthermore, during the year ended December 31, 2017, the Association forgave the debt owed by the Foundation in the amount of \$540,997. These amounts have been eliminated in consolidation.

K. COMMITMENTS AND CONTINGENCIES

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

During the year ended December 31, 2018, the Association sublet portions of office space to three unrelated tenants. All the agreements expire on January 31, 2022. Previously, the Association entered into an agreement to sublease a portion of its office space to a different unrelated tenant. The subtenant moved out in February 2017. Sublease income approximated \$30,000 and \$25,000 for the years ended December 31, 2018 and 2017, respectively. Under generally accepted accounting principles in the United States of America, a loss is recorded when anticipated sublease payments are less than the pro rata share of the lease payments relating to the portions of the office covered by the subleases. The amounts to be received under the subleases are approximately \$569,000 less than the anticipated cash outflows related to the office lease. Related to recording the loss on sublease, the Association has accrued a liability of \$560,772 as of December 31, 2018. Over the life of the subleases, the liability will be reduced as sublease income is recognized.

Rent expense was \$943,344 and \$880,089 for the years ended December 31, 2018 and 2017, respectively.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

K. COMMITMENTS AND CONTINGENCIES - CONTINUED

Future minimum lease payments offset by future anticipated sublease payments for office space are as follows:

Year Ending December 31,	Organization Lease	Sublease Payment	Net Lease Payment
2019	\$ 1,093,615	\$ (116,486)	\$ 977,129
2020	1,126,423	(196,664)	929,759
2021	1,160,216	(203,618)	956,598
2022	97,156	(17,405)	79,751
	\$ 3,477,410	\$ (534,173)	\$ 2,943,237

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

Employment agreement: The Association has an employment agreement with its President and Chief Executive Officer. The employment agreement obligates the Association to pay severance in the event of termination without cause.

L. RETIREMENT PLAN

The Association sponsors a 401(k) plan for all employees who are age 21 and over. Employees are eligible to participate in the plan upon hire and may contribute a percentage of their salaries. After one year of service, employees are eligible for an employer contribution. In both 2018 and 2017, the Association contributed approximately 4% of the participating employees' base compensation. Pension expense was \$88,562 and \$90,341 for the years ended December 31, 2018 and 2017, respectively.

M. THE ASSOCIATION OF FUNDRAISING PROFESSIONALS POLITICAL ACTION COMMITTEE

The Association organized a political action committee (PAC) on July 25, 2002. The PAC, known as the Association of Fundraising Professionals Political Action Committee, is a separately segregated fund within the Association. The PAC collects voluntary donations only from the Association's members and their families who are U.S. citizens. The PAC supports political candidates who believe in the principles to which philanthropy and the fundraising profession are dedicated. The PAC has received contributions totaling \$45,324 and \$41,435 during the years ended December 31, 2018 and 2017, respectively. These contributions are included in net assets with donor restrictions. The PAC is generally exempt from income taxes on revenue, other than net investment income, under Section 527 of the Internal Revenue Code. The PAC had no net investment income during the years ended December 31, 2018 and 2017.

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on Other Financial Information

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

We have audited the consolidated financial statements of the Association of Fundraising Professionals and AFP Foundation for Philanthropy as of and for the years ended December 31, 2018 and 2017, and our report thereon dated March 25, 2019, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on the following two pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position or changes in net assets of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC
March 25, 2019

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Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidating Statement of Financial Position

December 31, 2018 with Consolidated Totals for 2017

	Association	Foundation	Eliminations	Consolidated Totals	
				2018	2017
Assets					
Cash and cash equivalents	\$ 4,836,860	\$ 317,302	\$ -	\$ 5,154,162	\$ 4,824,009
Investments	-	943,847	-	943,847	994,095
Accounts receivable, net	38,461	49,000	-	87,461	92,529
Due from affiliate	133,630	-	(133,630)	-	-
Pledges receivable, net	-	112,253	-	112,253	95,269
Prepaid expenses and other	374,230	447	-	374,677	400,059
Inventory	77,012	-	-	77,012	92,767
Property, equipment, and leasehold improvements, net	1,388,887	18,000	-	1,406,887	753,988
Total assets	\$ 6,849,080	\$ 1,440,849	\$ (133,630)	\$ 8,156,299	\$ 7,252,716
Liabilities and net assets					
Liabilities					
Accounts payable and accrued expenses	\$ 793,099	\$ 31,246	\$ -	\$ 824,345	\$ 609,422
Accrued loss on subleases	560,772	-	-	560,772	-
Due to affiliate	-	133,630	(133,630)	-	-
Deferred revenue	4,400,446	-	-	4,400,446	4,528,366
Deferred rent	868,248	38,005	-	906,253	1,102,616
Total liabilities	6,622,565	202,881	(133,630)	6,691,816	6,240,404
Net assets (deficit)					
Without donor restrictions	104,870	137,506	-	242,376	(219,615)
With donor restrictions	121,645	1,100,462	-	1,222,107	1,231,927
Total net assets	226,515	1,237,968	-	1,464,483	1,012,312
Total liabilities and net assets	\$ 6,849,080	\$ 1,440,849	\$ (133,630)	\$ 8,156,299	\$ 7,252,716

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidating Statement of Activities

Year Ended December 31, 2018 with Consolidated Totals for 2017

	Association	Foundation	Eliminations	Consolidated Totals	
				2018	2017
Activities without donor restrictions					
Revenue and support					
Membership dues	\$ 5,715,081	\$ -	\$ -	\$ 5,715,081	\$ 5,800,036
Registration fees	2,921,871	106,357	-	3,028,228	3,182,691
Royalty income	1,245,275	-	-	1,245,275	1,265,921
Advertising and sponsorships	678,058	4,000	-	682,058	646,017
Contributions and grants	57,500	483,344	(18,000)	522,844	612,625
Exhibitor fees	308,231	-	-	308,231	305,785
Miscellaneous	63,807	33	-	63,840	33,977
Donated services	-	262,429	(202,429)	60,000	60,000
Sales of merchandise	51,370	-	-	51,370	75,764
Sublease rental income	30,141	-	-	30,141	-
Investment return, net	-	-	-	-	9,111
	11,071,334	856,163	(220,429)	11,707,068	11,991,927
Transfer to net assets with donor restrictions		(32,026)		(32,026)	-
Net assets released from donor restrictions	37,013	238,183	-	275,196	223,737
Total revenue and support	11,108,347	1,062,320	(220,429)	11,950,238	12,215,664
Expense					
Program services					
Professional development	3,005,963	-	-	3,005,963	2,821,841
Marketing and communications	2,029,505	-	-	2,029,505	2,231,226
Member and chapter services	1,799,029	-	-	1,799,029	1,599,776
Public policy, advocacy, and ethics	442,382	-	-	442,382	522,077
Relevant quality education	-	389,632	(18,000)	371,632	315,966
Inclusion and influence	-	44,033	-	44,033	33,619
Total program services	7,276,879	433,665	(18,000)	7,692,544	7,524,505
Supporting services					
Management and general	2,729,807	422,337	(141,700)	3,010,444	3,210,219
Resource development	-	277,267	(60,729)	216,538	194,228
Total supporting services	2,729,807	699,604	(202,429)	3,226,982	3,404,447
Total expense	10,006,686	1,133,269	(220,429)	10,919,526	10,928,952
Change in net assets without donor restrictions from operations	1,101,661	(70,949)	-	1,030,712	1,286,712
Loss on sublease	(568,721)	-	-	(568,721)	-
Impairment loss on property and equipment and cumulative effect of change in estimate	-	-	-	-	(535,290)
Change in net assets without donor restrictions	532,940	(70,949)	-	461,991	751,422
Activities with donor restrictions					
Contributions	45,324	207,429	-	252,753	137,710
Investment return, net	-	(19,403)	-	(19,403)	144,685
Transfer from net assets without donor restrictions	-	32,026	-	32,026	-
Net assets released from donor restrictions	(37,013)	(238,183)	-	(275,196)	(223,737)
Change in net assets with donor restrictions	8,311	(18,131)	-	(9,820)	58,658
Change in net assets	541,251	(89,080)	-	452,171	810,080
Net assets (deficit), beginning of year	(314,736)	1,327,048	-	1,012,312	202,232
Net assets, end of year	\$ 226,515	\$ 1,237,968	\$ -	\$ 1,464,483	\$ 1,012,312