

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

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

Report on the 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 statement of financial position as of December 31, 2019, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association of Fundraising Professionals and AFP Foundation for Philanthropy as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Organization as of and for the year ended December 31, 2018, were audited by other auditors whose report dated March 25, 2019, expressed an unmodified opinion on those statements.

RSM US LLP

Washington, D.C.
April 9, 2020

Association of Fundraising Professionals and AFP Foundation for Philanthropy

**Consolidated Statements of Financial Position
December 31, 2019 and 2018**

	2019	2018
Assets		
Cash and cash equivalents	\$ 4,441,786	\$ 5,154,162
Investments	2,042,999	943,847
Accounts receivable, net	287,872	87,461
Promises to give, net	185,943	112,253
Prepaid expenses and other	350,019	374,677
Inventory	66,272	77,012
Property and equipment, net	1,059,647	1,406,887
	<u>1,059,647</u>	<u>1,406,887</u>
Total assets	\$ 8,434,538	\$ 8,156,299
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 831,532	\$ 824,345
Accrued loss on subleases	378,900	560,772
Deferred revenue	4,361,142	4,400,446
Deferred rent	586,459	906,253
Total liabilities	6,158,033	6,691,816
Commitments and contingencies (Note 10)		
Net assets:		
Without donor restrictions	873,982	242,376
With donor restrictions	1,402,523	1,222,107
Total net assets	2,276,505	1,464,483
Total liabilities and net assets	\$ 8,434,538	\$ 8,156,299

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

**Consolidated Statements of Activities
Years Ended December 31, 2019 and 2018**

	2019	2018
Activities without donor restrictions:		
Revenue and support:		
Membership dues	\$ 5,829,557	\$ 5,715,081
Registration fees	2,873,265	3,028,228
Royalty income	1,106,772	1,245,275
Advertising and sponsorships	1,002,348	682,058
Contributions and grants	499,483	522,844
Sublease rental income	351,045	30,141
Exhibitor fees	293,700	308,231
Donated services	67,800	60,000
Sales of merchandise	51,895	51,370
Miscellaneous	42,363	63,840
Investment return, net	32,540	-
	<u>12,150,768</u>	<u>11,707,068</u>
Net assets released from donor restrictions	292,971	275,196
Transfer to net assets with donor restrictions	-	(32,026)
Total revenue and support	<u>12,443,739</u>	<u>11,950,238</u>
Expenses:		
Program services:		
Professional development	3,371,134	3,068,591
Marketing and communications	1,850,945	2,066,218
Member and chapter services	1,967,743	1,853,019
Relevant quality education	574,224	371,632
Public policy, advocacy and ethics	179,684	459,659
Inclusion and influence	146,103	44,033
Total program services	<u>8,089,833</u>	<u>7,863,152</u>
Supporting services:		
Management and general	3,480,004	2,839,836
Resource development	241,796	216,538
Total supporting services	<u>3,721,800</u>	<u>3,056,374</u>
Total expenses	<u>11,811,633</u>	<u>10,919,526</u>
Change in net assets without donor restrictions from operations	632,106	1,030,712
Loss on subleases	-	(568,721)
Change in net assets without donor restrictions	<u>632,106</u>	<u>461,991</u>
Activities with donor restrictions:		
Contributions	363,743	252,753
Investment return, net	109,144	(19,403)
Transfer from net assets without donor restrictions	-	32,026
Net assets released from donor restrictions	(292,971)	(275,196)
Change in net assets with donor restrictions	<u>179,916</u>	<u>(9,820)</u>
Change in net assets	812,022	452,171
Net assets:		
Beginning	<u>1,464,483</u>	<u>1,012,312</u>
Ending	<u>\$ 2,276,505</u>	<u>\$ 1,464,483</u>

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services						Supporting Services				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	\$ 613,346	\$ 368,795	\$ 592,091	\$ -	\$ 25,512	\$ 12,756	\$ 1,612,500	\$ 1,660,234	\$ 76,535	\$ 1,736,769	\$ 3,349,269
Employee benefits	120,853	74,803	79,899	-	4,732	2,353	282,640	201,144	14,118	215,262	497,902
Payroll taxes	41,434	26,771	42,422	-	1,996	998	113,621	122,321	5,989	128,310	241,931
Total salaries and related benefits	775,633	470,369	714,412	-	32,240	16,107	2,008,761	1,983,699	96,642	2,080,341	4,089,102
Contract and consulting fees	468,693	982,299	470,346	6,608	59,642	1,818	1,989,406	344,825	91,722	436,547	2,425,953
Conference, meetings and travel	1,182,135	25,671	101,681	6,018	217,499	87,386	1,620,390	279,154	11,477	290,631	1,911,021
Occupancy	275,720	167,360	161,394	85,864	5,788	2,894	699,020	278,922	17,365	296,287	995,307
Scholarships, grants and sponsorships	28,681	-	234,973	25,000	210,557	35,553	534,764	6,000	-	6,000	540,764
Bank and credit card fees	81,886	33,391	64,728	3,258	5,333	807	189,403	18,618	-	18,618	208,021
Depreciation	85,826	68,735	65,763	35,668	600	300	256,892	149,671	1,800	151,471	408,363
Printing and design	195,416	21,461	19,703	850	11,966	1,238	250,634	11,942	1,967	13,909	264,543
Promotion and marketing	80,423	54,789	52,206	13,620	14,446	-	215,484	773	119	892	216,376
Postage and shipping	115,426	6,695	41,073	352	4,600	-	168,146	2,993	4,454	7,447	175,593
Insurance	9,122	-	5,180	-	763	-	15,065	102,688	130	102,818	117,883
Equipment and software	21,456	-	-	-	-	-	21,456	135,320	-	135,320	156,776
Other expenses	48,985	-	31,522	2,446	10,665	-	93,618	33,413	16,120	49,533	143,151
Office supplies	1,583	273	2,916	-	-	-	4,772	47,037	-	47,037	51,809
Dues and subscriptions	149	249	1,846	-	125	-	2,369	63,931	-	63,931	66,300
Cost of merchandise	-	19,653	-	-	-	-	19,653	-	-	-	19,653
Bad debt	-	-	-	-	-	-	-	8,173	-	8,173	8,173
Property and other taxes	-	-	-	-	-	-	-	12,845	-	12,845	12,845
	\$ 3,371,134	\$ 1,850,945	\$ 1,967,743	\$ 179,684	\$ 574,224	\$ 146,103	\$ 8,089,833	\$ 3,480,004	\$ 241,796	\$ 3,721,800	\$ 11,811,633

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statement of Functional Expenses Year Ended December 31, 2018

	Program Services						Supporting Services				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 benefits	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	62,628	36,713	53,990	17,277	-	-	170,608	45,351	-	45,351	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
	\$ 3,068,591	\$ 2,066,218	\$ 1,853,019	\$ 459,659	\$ 371,632	\$ 44,033	\$ 7,863,152	\$ 2,839,836	\$ 216,538	\$ 3,056,374	\$ 10,919,526

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 812,022	\$ 452,171
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	408,363	215,959
Bad debt expense	8,173	15,628
Net unrealized and realized (gain) loss on investments	(102,332)	34,381
Endowment contributions restricted in perpetuity	(18,500)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(208,584)	(10,560)
Promises to give	(73,690)	(16,984)
Prepaid expenses and other	24,658	25,382
Inventory	10,740	15,755
(Decrease) increase in:		
Accounts payable and accrued expenses	7,187	214,923
Accrued loss on subleases	(181,872)	560,772
Deferred revenue	(39,304)	(127,920)
Deferred rent	(319,794)	(196,363)
Net cash provided by operating activities	327,067	1,183,144
Cash flows from investing activities:		
Purchases of property and equipment	(61,123)	(868,858)
Purchases of investments	(2,035,801)	(560,297)
Proceeds from sale of investments	1,038,981	576,164
Net cash used in investing activities	(1,057,943)	(852,991)
Cash flows from financing activities:		
Endowment contributions restricted in perpetuity	18,500	-
Net cash provided by financing activities	18,500	-
Net (decrease) increase in cash and cash equivalents	(712,376)	330,153
Cash and cash equivalents:		
Beginning	5,154,162	4,824,009
Ending	\$ 4,441,786	\$ 5,154,162
Supplemental disclosure of cash flow information:		
Donated securities	\$ 5,311	\$ 4,891

See notes to consolidated financial statements.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: 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.

The program services that the Organization 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.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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. In 2019, the AFP U.S. Foundation held the Women's Impact Summit.

A summary of the Organization's significant accounting policies follows:

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.

Basis of presentation: The Organization follows the accounting requirements of the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the FASB ASC, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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. 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.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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, 2019 and 2018.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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

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

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.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations net of related fees. Money market funds are recorded at cost.

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.

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 \$22,455 and \$30,162, which is its estimated potentially uncollectible accounts receivable, at December 31, 2019 and 2018.

Inventory: Inventory consists of items available for resale or use in future periods and is stated at the lower of cost or net realizable 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, 2019 and 2018.

Property and equipment: Property and equipment 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

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaces most existing recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Organization adopted the new standard effective for the year ended December 31, 2019, using the full retrospective method. The Organization's revenue arrangements are recognized over time and consist of performance obligations that are satisfied ratably over a period of no more than one year. Membership dues, registration fees, royalty income, advertising and sponsorship, exhibitor fees and sales of merchandise are those line items affected by this standard. Based on the Organization's review of its contracts with customers, the timing of the amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. The adoption of this standard had no impact on the statements of financial position and the statements of activities and changes in net assets but resulted in additional disclosures.

Membership: Membership dues are recognized in the period to which they apply. The membership period is 12 months beginning the month paid or the member's renewal date, whichever is later. Member benefits include access to workshops, free webinars, an online career builder, discounted e-courses, access to industry information and a member rate at the annual conference. All member benefits are considered one performance obligation and revenue is recognized ratably over the twelve-month membership period as the delivery of the member benefit is provided. The monthly derived value provided to the member is the specific output used by the Organization to determine that the performance obligation has been satisfied.

Registration and exhibitor fees: Conference registration and exhibitor fees are recognized at the point in time that the related conference takes place. Registration and exhibitor fees are generally collected in advance of the conference and recorded as deferred revenue until the conference occurs.

Royalty income: The Organization has an agreement with a third-party vendor to run a job board. The Organization recognizes revenue at the point in time the job board operates.

Advertising and sponsorship: Advertising in conference programs and sponsorship of events are recognized as revenue at the point in time that the related conference or event takes place. In addition, the Organization has strategic partners that are provided advertisements throughout the year. For the portion of the agreement not allocated to a specific event, the amount is recognized ratably as the performance obligation is satisfied over the period of the agreement. The monthly derived value provided to the strategic partner is the specific output used by the Organization to determine that the performance obligation has been satisfied.

Except for registration fees, exhibitor fees, advertising in conference programs, and event sponsorships, all of the Organization's revenue from contracts with customers are from performance obligations satisfied over time and is derived from contracts with an initial expected duration of one year or less. Prices are specific to a distinct performance obligation and do not consist of multiple transactions.

Economic factors driven by consumer confidence, employment, inflation, and other world events impact the timing and level of cash received and revenue recognized by the Organization. Periods of economic downturn resulting from any of the above factors may result in declines in future cash flows and recognized revenue of the Organization.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Deferred revenue: The Organization records deferred revenue in situations when amounts are paid in advance of the Organization satisfying the applicable revenue recognition criteria. Such revenue is recognized when all criteria are subsequently satisfied. See Note 5 for specific amounts in deferred revenue. There were no changes in membership fees, registration fees, royalty income, advertising and sponsorship and exhibitor fees that would affect the economic seasonality of the statements of financial position.

Contributions and grants: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The Organization adopted the new standard effective for the year ended December 31, 2019, using the modified prospective method. There were no changes to revenue recordation and presentation as a result.

Contributions and grants include contributions from individuals, chapters of the Association and various organizations. All contributions and grants are unconditional as the benefit received by the donor is none or of de minimis value. Revenue is recognized when the donation is received or when an unconditional promise to give. See Note 3 for details about promises to give.

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 and depreciation have been allocated among the program and supporting services benefited based on employee count.

Upcoming accounting pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Measure of operations: The Organization excludes from the change in net assets from operations the loss on subleases.

Reclassifications: Certain amounts in the 2018 financial statements have been reclassified to conform with the current year financial statement presentation. The reclassifications had no impact on the previously reported change in net assets.

Subsequent events: Subsequent events have been evaluated through April 9, 2020, which was the date the consolidated financial statements were available to be issued.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 2. Investments

The Organization follows the accounting standards topic regarding fair value measurements, which establishes a framework for measuring fair value in accordance with U.S. GAAP 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, exchange traded funds and mutual funds, the fair values for which were based on quoted prices for identical assets in active markets. Management believes the estimated fair value of investments to be a reasonable approximation of the exit price for the assets.

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

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

Investments consisted of the following at December 31:

	2019	2018
Investments, at fair value:		
Common stocks	\$ -	\$ 134,521
Exchange traded funds	100,009	-
Mutual funds – equity	1,132,128	127,580
Mutual funds – fixed income	765,855	630,038
	<u>1,997,992</u>	<u>892,139</u>
Investments, at cost:		
Cash funds	45,007	51,708
	<u>\$ 2,042,999</u>	<u>\$ 943,847</u>

Subsequent to December 31, 2019, financial markets have experienced a high degree of volatility. Therefore, the investment balances presented above as December 31, 2019 do not reflect subsequent changes that have occurred during 2020.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 3. Promises to Give

Promises to give 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%. Promises to give, recorded in the consolidated statements of financial position, consisted of the following at December 31:

	2019	2018
Receivable in less than one year	\$ 149,986	\$ 79,601
Receivable in one to five years	49,609	40,004
Less allowance for doubtful accounts and discount to present value	(13,652)	(7,352)
	<u>\$ 185,943</u>	<u>\$ 112,253</u>

Note 4. Property and Equipment

Property and equipment consisted of the following at December 31:

	2019	2018
Office equipment	\$ 36,101	\$ 7,826
Computer equipment and software	728,267	728,267
Website	277,262	277,262
Education course development	63,750	61,750
Leasehold improvements	2,398,122	2,367,274
	<u>3,503,502</u>	<u>3,442,379</u>
Less accumulated depreciation/amortization	(2,443,855)	(2,035,492)
	<u>\$ 1,059,647</u>	<u>\$ 1,406,887</u>

Note 5. Deferred Revenue

Deferred revenue consisted of the following at December 31:

	2019	2018
Membership dues	\$ 3,250,927	\$ 3,145,877
International conference	1,110,215	1,254,569
	<u>\$ 4,361,142</u>	<u>\$ 4,400,446</u>

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 6. Liquidity

The following reflects the Organization's financial assets as of December 31, 2019 and 2018, 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 7) that could be drawn upon if the governing board approves that action.

	2019	2018
Cash and cash equivalents	\$ 4,441,786	\$ 5,154,162
Investments	2,042,999	943,847
Account receivable, net	287,872	87,461
Promises to give, net	185,943	112,253
Financial assets available	<u>6,958,600</u>	<u>6,297,723</u>
Less those unavailable for general expenditures within one year due to:		
Investments held in perpetuity	(884,140)	(556,289)
Subject to expenditure for specified purpose	(518,383)	(665,818)
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>\$ 5,466,077</u>	<u>\$ 4,985,616</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 noncash expenses. Such average monthly costs were approximately \$945,000 and \$887,000 for the years ended December 31, 2019 and 2018, respectively. The Organization had approximately six months of financial assets available to meet its average monthly operating costs for the years ended December 31, 2019 and 2018. In October 2018, the Foundation updated its investment policy for the Endowment Fund. In September 2019, the Association approved an investment policy. Additionally, during 2019 the Organization entered into a line of credit agreement with a financial institution. The line of credit was not drawn during the year ended December 31, 2019, and has maximum of \$500,000. It matures August 31, 2020.

Note 7. 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, 2019 and 2018.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 8. Net Assets With Donor Restrictions

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

	2019	2018
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	60,463
Levy Professional Education Endowment	50,000	50,000
Strategic planning	42,241	42,241
International conference scholars	34,445	34,445
Excellence in leadership	59,420	29,420
Staff development	25,628	25,628
Robert & Marion W. Pierpont Endowment	13,500	-
Executive Management Institute scholarships	9,444	9,444
Endowment earnings	284,351	249,802
	<u>884,140</u>	<u>806,091</u>
Subject to expenditure for specified purpose:		
Annual fund and major gifts	170,442	144,517
Levy Professional Education Fund	138,579	123,433
Growth in giving	48,107	26,421
PAC contributions	161,255	121,645
	<u>518,383</u>	<u>416,016</u>
	<u>\$ 1,402,523</u>	<u>\$ 1,222,107</u>

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

	2019	2018
Program satisfaction:		
Annual fund and major gifts	\$ 228,771	\$ 167,983
PAC contributions	3,205	37,013
Endowment interest	30,995	7,495
Levy Professional Education	30,000	25,500
Growth in giving	-	37,205
	<u>\$ 292,971</u>	<u>\$ 275,196</u>

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.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 8. Net Assets With Donor Restrictions (Continued)

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:

	2019	2018
Beginning, net assets	\$ 806,091	\$ 823,325
Investment return, net	65,544	(9,839)
Contributions	43,500	100
Appropriation of endowment assets for expenditure	(30,995)	(7,495)
Ending, net assets	<u>\$ 884,140</u>	<u>\$ 806,091</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).

Note 9. 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, 2019 and 2018. In addition, other donated services to the AFP U.S. Foundation totaled \$7,800.

Note 9. 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 \$96,709 and \$125,667 for the years ended December 31, 2019 and 2018, respectively.

The Association provided \$81,484 and \$74,312 in contributed services to the AFP U.S. Foundation for the years ended December 31, 2019 and 2018, respectively. Additionally, the Association paid \$130,716 and \$128,117 of the AFP U.S. Foundation's expenses during the years ended December 31, 2019 and 2018, respectively. These amounts have been eliminated in consolidation.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 10. 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 U.S. GAAP, 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. Sublease income approximated \$351,000 and \$30,000 for the years ended December 31, 2019 and 2018, respectively. Under U.S. GAAP, 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 \$378,900 and \$560,772 as of December 31, 2019 and 2018, respectively. Over the life of the subleases, the liability will be reduced as sublease income is recognized.

Rent expense was \$861,984 and \$943,344 for the years ended December 31, 2019 and 2018, respectively.

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

	Organization Lease	Sublease Payment	Net Lease Payment
Years ending December 31:			
2020	\$ 1,129,171	\$ (196,664)	\$ 932,507
2021	1,163,045	(203,618)	959,427
2022	97,156	(17,405)	79,751
	<u>\$ 2,389,372</u>	<u>\$ (417,687)</u>	<u>\$ 1,971,685</u>

On February 26, 2020, the Organization signed a non-binding letter of intent for new office space with a lease commencement date of February 1, 2022. The proposed lease term is for 10 years with a renewal option for an additional 5 years. The letter of intent indicates that the lessor will abate the first 14 months of rent and provide a tenant improvement allowance. The amount of square footage and other specific terms are being negotiated and a lease has not been executed. Therefore, future minimum lease payments for the proposed new office space are not included in the above schedule.

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 ICON, to mitigate any risk of cancellation.

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Notes to Consolidated Financial Statements

Note 10. Commitments and Contingencies (Continued)

On March 12, 2020, the state of Maryland prohibited events with over 250 people to be held due to the outbreak of the Coronavirus (COVID-19). As a result, the Association has cancelled the in-person experience for ICON and will hold the conference virtually. The financial impact of these changes on the Association have not yet been fully determined.

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.

Note 11. 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 2019 and 2018, the Association contributed approximately 4% of the participating employees' base compensation. Additionally, in 2019 there was an employer contribution of \$44,459 related to correcting compensation that had not been factored in the contribution calculations. Pension expense was \$158,268 and \$88,562 for the years ended December 31, 2019 and 2018, respectively.

Note 12. 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 \$42,815 and \$45,324 during the years ended December 31, 2019 and 2018, 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 IRC. The PAC had no net investment income during the years ended December 31, 2019 and 2018.

Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of the Association of Fundraising Professionals and AFP Foundation for Philanthropy as of and for the year ended December 31, 2019, and our report thereon dated April 9, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on the following two pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position or changes in net assets of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The supplementary information as of and for the year ended December 31, 2018, was audited by other auditors, whose report, dated March 25, 2019, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

RSM US LLP

Washington, D.C.
April 9, 2020

Association of Fundraising Professionals and AFP Foundation for Philanthropy

Consolidating Statement of Financial Position

December 31, 2019

(With Summarized Comparative Totals for 2018)

	Association	Foundation	Eliminations	Consolidated Totals	
				2019	2018
Assets					
Cash and cash equivalents	\$ 4,045,700	\$ 396,086	\$ -	\$ 4,441,786	\$ 5,154,162
Investments	1,032,540	1,010,459	-	2,042,999	943,847
Accounts receivable, net	287,633	239	-	287,872	87,461
Due from affiliate	-	25,015	(25,015)	-	-
Promises to give, net	-	185,943	-	185,943	112,253
Prepaid expenses and other	330,536	19,483	-	350,019	374,677
Inventory	66,272	-	-	66,272	77,012
Property and equipment, net	1,047,647	12,000	-	1,059,647	1,406,887
Total assets	\$ 6,810,328	\$ 1,649,225	\$ (25,015)	\$ 8,434,538	\$ 8,156,299
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$ 595,849	\$ 235,683	\$ -	\$ 831,532	\$ 824,345
Accrued loss on subleases	378,900	-	-	378,900	560,772
Due to affiliate	25,015	-	(25,015)	-	-
Deferred revenue	4,361,142	-	-	4,361,142	4,400,446
Deferred rent	562,346	24,113	-	586,459	906,253
Total liabilities	5,923,252	259,796	(25,015)	6,158,033	6,691,816
Net assets:					
Without donor restrictions	725,821	148,161	-	873,982	242,376
With donor restrictions	161,255	1,241,268	-	1,402,523	1,222,107
Total net assets	887,076	1,389,429	-	2,276,505	1,464,483
Total liabilities and net assets	\$ 6,810,328	\$ 1,649,225	\$ (25,015)	\$ 8,434,538	\$ 8,156,299

Association of Fundraising Professionals and AFP Foundation for Philanthropy

**Consolidating Statement of Activities
Year Ended December 31, 2019
(With Summarized Comparative Totals for 2018)**

	Association	Foundation	Eliminations	Consolidated Totals	
				2019	2018
Activities without donor restrictions:					
Revenue and support:					
Membership dues	\$ 5,829,557	\$ -	\$ -	\$ 5,829,557	\$ 5,715,081
Registration fees	2,721,420	151,845	-	2,873,265	3,028,228
Royalty income	1,106,772	-	-	1,106,772	1,245,275
Advertising and sponsorships	1,002,348	116,000	(116,000)	1,002,348	682,058
Contributions and grants	57,500	536,983	(95,000)	499,483	522,844
Sublease rental income	351,045	-	-	351,045	30,141
Exhibitor fees	293,700	-	-	293,700	308,231
Donated services	-	280,000	(212,200)	67,800	60,000
Sales of merchandise	51,895	-	-	51,895	51,370
Miscellaneous	42,285	78	-	42,363	63,840
Investment return, net	32,540	-	-	32,540	-
	11,489,062	1,084,906	(423,200)	12,150,768	11,707,068
Net assets released from donor restrictions	3,205	289,766	-	292,971	275,196
Transfer to net assets with donor restrictions	-	-	-	-	(32,026)
Total revenue and support	11,492,267	1,374,672	(423,200)	12,443,739	11,950,238
Expenses:					
Program services:					
Professional development	3,371,134	-	-	3,371,134	3,068,591
Marketing and communications	1,850,945	-	-	1,850,945	2,066,218
Member and chapter services	1,967,743	-	-	1,967,743	1,853,019
Relevant quality education	-	582,338	(8,114)	574,224	371,632
Public policy, advocacy and ethics	154,684	25,000	-	179,684	459,659
Inclusion and influence	-	150,160	(4,057)	146,103	44,033
Total program services	7,344,506	757,498	(12,171)	8,089,833	7,863,152
Supporting services:					
Management and general	3,526,810	340,380	(387,186)	3,480,004	2,839,836
Resource development	-	266,139	(24,343)	241,796	216,538
Total supporting services	3,526,810	606,519	(411,529)	3,721,800	3,056,374
Total expenses	10,871,316	1,364,017	(423,700)	11,811,633	10,919,526
Change in net assets without donor restrictions from operations	620,951	10,655	500	632,106	1,030,712
Loss on subleases	-	-	-	-	(568,721)
Change in net assets without donor restrictions	620,951	10,655	500	632,106	461,991
Activities with donor restrictions:					
Contributions	42,815	321,428	(500)	363,743	252,753
Investment return, net	-	109,144	-	109,144	(19,403)
Transfer from net assets without donor restrictions	-	-	-	-	32,026
Net assets released from donor restrictions	(3,205)	(289,766)	-	(292,971)	(275,196)
Change in net assets with donor restrictions	39,610	140,806	(500)	179,916	(9,820)
Change in net assets	660,561	151,461	-	812,022	452,171
Net assets:					
Beginning	226,515	1,237,968	-	1,464,483	1,012,312
Ending	\$ 887,076	\$ 1,389,429	\$ -	\$ 2,276,505	\$ 1,464,483