# American Association of Collegiate Registrars and Admissions Officers (AACRAO)

## Financial Statements
## (With Supplementary Information)
## and Independent Auditor's Report

September 30, 2018 and 2017

CohnReznick
Accounting • Tax • Advisory

**American Association of Collegiate Registrars and Admissions Officers (AACRAO)**

Index

# Independent Auditor's Report

Board of Directors
American Association of Collegiate Registrars and Admissions Officers (AACRAO)

## Report on the Financial Statements

We have audited the accompanying financial statements of the American Association of Collegiate Registrars and Admissions Officers (the "Association"), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Association of Collegiate Registrars and Admissions Officers as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 21 and 22 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Bethesda, Maryland
December 17, 2018

**American Association of Collegiate Registrars and Admissions Officers (AACRAO)**

**Statements of Financial Position**
**September 30, 2018 and 2017**

Assets

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | $ 3,622,196 | $ 3,042,733 |
| Investments | 9,844,735 | 10,381,227 |
| Promises to give | 399,300 | - |
| Accounts receivable | 442,007 | 280,215 |
| Prepaid expenses and other assets | 464,511 | 645,349 |
| Property and equipment, net | 8,251,514 | 274,648 |
| Total assets | $ 23,024,263 | $ 14,624,172 |

Liabilities and Net Assets

| | 2018 | 2017 |
|---|---|---|
| Liabilities | | |
| Accounts payable | $ 1,938,898 | $ 482,291 |
| Accrued expenses | 282,657 | 249,674 |
| Deferred revenue | 2,789,173 | 3,057,537 |
| Deferred rent | - | 32,805 |
| Interest rate swap | 47,018 | - |
| Long-term debt, net of unamortized debt issuance costs | 5,756,851 | - |
| Total liabilities | 10,814,597 | 3,822,307 |
| Commitments and contingencies | - | - |
| Net assets | | |
| Unrestricted | 11,357,247 | 10,801,865 |
| Temporarily restricted | 852,419 | - |
| Total net assets | 12,209,666 | 10,801,865 |
| Total liabilities and net assets | $ 23,024,263 | $ 14,624,172 |

See Notes to Financial Statements.

## American Association of Collegiate Registrars and Admissions Officers (AACRAO)

## Statement of Activities
## Year Ended September 30, 2018

| | Unrestricted | Temporarily restricted | Total |
|---|---|---|---|
| Support and revenue | | | |
| Service fees | $ 2,173,849 | $ - | $ 2,173,849 |
| Membership fees | 2,839,802 | - | 2,839,802 |
| Registrations | 2,410,135 | - | 2,410,135 |
| Publication sales | 729,129 | - | 729,129 |
| Exhibit fees | 620,362 | - | 620,362 |
| Sponsorships | 450,642 | - | 450,642 |
| Advertising | 196,723 | - | 196,723 |
| Corporate dues | 134,765 | - | 134,765 |
| Other income | 11,490 | - | 11,490 |
| Contributions | 83,769 | 1,199,300 | 1,283,069 |
| Net assets released from restrictions | 347,121 | (347,121) | - |
| Total support and revenue | 9,997,787 | 852,179 | 10,849,966 |
| Expenses | | | |
| Program services | | | |
| International education services | 916,129 | - | 916,129 |
| Project, contracts and consulting | 1,668,422 | - | 1,668,422 |
| Meetings and workshops | 1,227,387 | - | 1,227,387 |
| Annual meeting | 1,153,089 | - | 1,153,089 |
| Communications/government relations | 1,028,790 | - | 1,028,790 |
| Membership services | 373,777 | - | 373,777 |
| Publications | 302,061 | - | 302,061 |
| Total program services | 6,669,655 | - | 6,669,655 |
| Supporting services | | | |
| General and administrative | 2,751,355 | - | 2,751,355 |
| Governance | 474,540 | - | 474,540 |
| Total supporting services | 3,225,895 | - | 3,225,895 |
| Total expenses | 9,895,550 | - | 9,895,550 |
| Change in net assets from operations | 102,237 | 852,179 | 954,416 |
| Nonoperating income | | | |
| Net investment income | 500,163 | 240 | 500,403 |
| Loss on interest rate swap | (47,018) | - | (47,018) |
| Total nonoperating income | 453,145 | 240 | 453,385 |
| Change in net assets | 555,382 | 852,419 | 1,407,801 |
| Net assets, beginning of the year | 10,801,865 | - | 10,801,865 |
| Net assets, end of year | $ 11,357,247 | $ 852,419 | $ 12,209,666 |

## American Association of Collegiate Registrars and Admissions Officers (AACRAO)

### Statement of Activities
### Year Ended September 30, 2017

| | Unrestricted | Temporarily restricted | Total |
|---|---|---|---|
| Support and revenue | | | |
| Service fees | $ 1,965,713 | $ - | $ 1,965,713 |
| Membership fees | 2,877,139 | - | 2,877,139 |
| Registrations | 2,198,021 | - | 2,198,021 |
| Publication sales | 715,101 | - | 715,101 |
| Exhibit fees | 642,710 | - | 642,710 |
| Sponsorships | 407,519 | - | 407,519 |
| Advertising | 225,970 | - | 225,970 |
| Corporate dues | 145,633 | - | 145,633 |
| Other income | 35,115 | - | 35,115 |
| Contributions | 6,100 | - | 6,100 |
| Net assets released from restrictions | 494,127 | (494,127) | - |
| Total support and revenue | 9,713,148 | (494,127) | 9,219,021 |
| Expenses | | | |
| Program services | | | |
| International education services | 912,833 | - | 912,833 |
| Project, contracts and consulting | 1,733,125 | - | 1,733,125 |
| Meetings and workshops | 1,206,526 | - | 1,206,526 |
| Annual meeting | 1,151,716 | - | 1,151,716 |
| Communications/government relations | 972,313 | - | 972,313 |
| Membership services | 377,128 | - | 377,128 |
| Publications | 320,129 | - | 320,129 |
| Total program services | 6,673,770 | - | 6,673,770 |
| Supporting services | | | |
| General and administrative | 2,584,549 | - | 2,584,549 |
| Governance | 363,639 | - | 363,639 |
| Total supporting services | 2,948,188 | - | 2,948,188 |
| Total expenses | 9,621,958 | - | 9,621,958 |
| Change in net assets from operations | 91,190 | (494,127) | (402,937) |
| Non-operating income (expense) | | | |
| Net investment income (loss) | 918,992 | 92 | 919,084 |
| Change in net assets | 1,010,182 | (494,035) | 516,147 |
| Net assets, beginning of the year | 9,791,683 | 494,035 | 10,285,718 |
| Net assets, end of year | $ 10,801,865 | $ - | $ 10,801,865 |

See Notes to Financial Statements.

**American Association of Collegiate Registrars and Admissions Officers (AACRAO)**

**Statements of Cash Flows**
**Years Ended September 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 1,407,801 | $ 516,147 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Realized gain on investments | (174,470) | (139,815) |
| Unrealized gain on investments | (91,817) | (576,125) |
| Loss on interest rate swap | 47,018 | - |
| Depreciation and amortization | 154,949 | 102,470 |
| Amortization of debt issuance costs | 19,715 | - |
| Loss on disposal of property and equipment | 8,366 | - |
| (Increase) decrease in assets | | |
| Accounts receivable | (161,792) | (30,504) |
| Promises to give | (399,300) | - |
| Prepaid expenses and other assets | 180,838 | (135,098) |
| Increase (decrease) in liabilities | | |
| Accounts payable | 1,326,613 | 12,722 |
| Accrued expenses | 32,983 | 45,186 |
| Deferred revenue | (268,364) | 182,856 |
| Deferred rent | (32,805) | (43,740) |
| Net cash provided by (used in) operating activities | 2,049,735 | (65,901) |
| Cash flows from investing activities | | |
| Proceeds from sales or maturities of investments | 4,603,021 | 2,514,518 |
| Purchases and transfers of investments | (3,800,242) | (3,019,276) |
| Purchases of property and equipment | (8,010,187) | (209,536) |
| Net cash used in investing activities | (7,207,408) | (714,294) |
| Cash flows from financing activities | | |
| Proceeds from issuance of revenue bonds payable | 6,000,000 | - |
| Debt issuance costs paid | (262,864) | - |
| Net cash provided by financing activities | 5,737,136 | - |
| Net increase (decrease) in cash and cash equivalents | 579,463 | (780,195) |
| Cash and cash equivalents - beginning of year | 3,042,733 | 3,822,928 |
| Cash and cash equivalents - end of year | $ 3,622,196 | $ 3,042,733 |

**American Association of Collegiate Registrars and Admissions Officers (AACRAO)**

**Statements of Cash Flows**
**Years Ended September 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest, net of amounts capitalized | $ 51,725 | $ - |
| Significant noncash investing and financing activities | | |
| Property and equipment included in accounts payable and accrued expenses | $ 129,994 | $ - |
| Write off of fixed assets | $ 1,779,840 | $ - |
| Write off of accumulated depreciation | $ 1,771,474 | $ - |

See Notes to Financial Statements.

## Note 1 - Organization

American Association of Collegiate Registrars and Admissions Officers (the "Association") was organized in 1999 as a nonprofit organization in the District of Columbia. The Association is a nonprofit, voluntary, professional association of more than 11,000 higher education admissions and registration professionals who represent more than 2,600 institutions and agencies in the United States and are in over 40 countries around the world. The mission of the Association is to serve and advance higher education by providing leadership in academic and enrollment services. The primary support for the Association is from service fees, membership fees, and registrations.

## Note 2 - Summary of significant accounting policies

### Basis of accounting

The Association prepares its financial statements on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expenses are recognized when the obligation is incurred.

### Net assets

In accordance with the accounting guidance for the presentation of the financial statements of not-for-profit entities, information regarding the financial position and activities is required to be reported according to the following three classes of net assets:

- **Unrestricted:** Include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Association and include both internally board designated and undesignated resources.

- **Temporarily Restricted:** Include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that support current operations that have not been collected, which have satisfied the time restriction for the operating period, are included in temporarily restricted net assets until received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

- **Permanently Restricted:** Include net assets that are subject to donor-imposed stipulation that neither expire by passage of time nor can be fulfilled or otherwise removed by the Association's actions. Generally, the donors of these assets permit the Association to use the income and gains earned on related investments for operations or for specific purpose stipulated by the donors. The Association had no permanently restricted net assets at September 30, 2018 and September 30, 2017.

### Income taxes

The Association is exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation within the meaning of Section 509(a)(2) of the Internal Revenue Code.

The Association believes that is has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. Generally, income tax returns related to the current and three prior years remain open for examination by taxing authorities.

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

**Cash and cash equivalents**
For financial statement purposes, the Association considers demand deposits and money market funds not held within the Association's investment portfolios to be cash and cash equivalents.

**Investments**
Investments in equity and debt securities with readily determinable fair values are measured at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in net assets.

**Fair value of financial instruments**
The carrying amounts, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments. The fair value of investments is based upon quoted market prices, or, if unavailable, is determined by investment managers.

**Impairment of long-lived assets**
The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property and equipment are less than its carrying amount, management compares the carrying amount of the property and equipment to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended September 30, 2018 and 2017.

**Advertising**
Advertising costs are charged to operations when incurred. Advertising costs for the years ended September 30, 2018 and September 30, 2017 were $1,185 and $12,349, respectively.

**Promises to give**
Unconditional promises to give are recognized as revenue in the period the promises are received, and as assets, or decreases of liabilities or expenses depending on the form of the benefits received. Promises to give to be received in future periods are discounted to their net present value at the time the revenue is recorded. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

Promises to give of $399,300 were unconditional, due within one year, and considered fully collectable as of September 30, 2018. The Association had no promises to give at September 30,

2017. Management periodically reviews promises to give for collectability based on management's experience with prior promises and its analysis of specific promises to give.

**Accounts receivable**
Accounts receivable consists primarily of amounts owed from customers for service fees relating to the Association's various programs. Accounts receivable are presented at the gross, or face, amount due to the Association. Management periodically reviews the status of all accounts receivable balances due for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Association'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. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

**Prepaid expenses and other assets**
Prepaid expenses and other assets include inventory, which consists of publications held for sale. Inventory is stated at the lower of cost or market, using the average cost method.

**Contributions**
Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires. Temporarily restricted support that expires in the same period is classified as unrestricted net assets.

**Debt issuance costs**
Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the bond to which the costs relate. Debt issuance costs are amortized over the lives of the bonds and reported as a component of interest expense computed using the straight-line method.

**Interest rate swap agreement**
The fair value of the interest rate swap is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counter parties.

**Program services**
- **International education services:** The Association serves as a resource center for members and the public by answering questions related to education outside the United States.

- **Project, contracts, and consulting:** The Association provides services to universities and colleges of all sizes across the United States, Canada, and a variety of other international locations in the specialized areas of strategic enrollment management, student services, staff development, technology optimization, and organization operations.

- **Meetings and workshops:** The Association provides educational information for both members and the interested public and provides forums for discussion of issues.

- **Annual meeting:** The Association provides a forum for members and other experts in admissions, registration, financial aid, institutional research and government regulations.

- **Communications/government relations:** The Association provides members with updates on federal regulations and compliance issues, congressional and agency activity, and higher education coverage in national news.

- **Membership services:** The Association's membership services activities include maintaining an accurate membership database so as to share directory information with members, providing customer service to members, retention of current members and recruitment of new members.

- **Publications:** The Association offers a wide variety of publications that assist members with professional development.

**Supporting services**

- **General and administrative:** The general and administrative function includes activities necessary for the administrative processes of the Association, including managing its operations and financial responsibilities.

- **Governance:** The governance function includes activities relating to providing support for the Association's Board of Directors and related Committees thereof.

**Functional allocation of expenses**

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited based on the estimated level of effort.

**Measure of operations**

The Association includes investment income in the unrestricted change in net assets from operations.

**Concentrations**

- **Credit risk:** The Association maintains demand deposits with commercial banks and money market fund with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Association.

- **Market risk:** The Association also invests funds in a professionally managed investment portfolio of fixed income and equity securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks could materially affect investment balances and the amounts reported in the financial statements.

## Note 3 - Investments

In accordance with generally accepted accounting principles, the Association uses the following prioritized input levels to measure fair value of investments. 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 inputs 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 classified within Level 1 include mutual funds, equity securities, and exchange traded funds.

Investments classified within Level 2 include fixed income securities, which consist of U.S. government obligations and corporate bonds, and the interest rate swap. Fixed income securities were valued by pricing vendors, which use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. The Association's interest rate swap is observable at commonly quoted intervals for the full term of the swap and is, therefore, considered a Level 2 item.

Management believes that investments at fair value have been reported using an estimated amount which is a reasonable approximation of their exit price.

Investments recorded at cost include cash and money market funds. Investments recorded at cost are not required to be classified as one of the levels prescribed by the fair value hierarchy.

Investments consisted of the following at September 30, 2018 and 2017:

| September 30, 2018 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments, at fair value | | | | |
| Fixed income securities | $ 2,260,599 | $ - | $ 2,260,599 | $ - |
| Mutual funds - equities | 373,427 | 373,427 | - | - |
| Mutual funds - fixed income | 577,585 | 577,585 | - | - |
| Mutual funds - non-traditional | 1,212,695 | 1,212,695 | - | - |
| Equity securities | 5,206,240 | 5,206,240 | - | - |
| | 9,630,546 | 7,369,947 | 2,260,599 | - |
| Cash and money market fund | 214,189 | - | - | - |
| | $ 9,844,735 | $ 7,369,947 | $ 2,260,599 | $ - |
| Liabilities, at fair value | | | | |
| Interest rate swap | $ 47,018 | $ - | $ 47,018 | $ - |

| September 30, 2017 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments, at fair value | | | | |
| Fixed income securities | $ 2,080,218 | $ - | $ 2,080,218 | $ - |
| Mutual funds - equities | 408,244 | 408,244 | - | - |
| Mutual funds - fixed income | 1,193,751 | 1,193,751 | - | - |
| Mutual funds - non-traditional | 917,968 | 917,968 | - | - |
| Equity securities | 5,491,424 | 5,491,424 | - | - |
| | 10,091,605 | 8,011,387 | 2,080,218 | - |
| Cash and money market fund | 289,622 | - | - | - |
| | $ 10,381,227 | $ 8,011,387 | $ 2,080,218 | $ - |
| Liabilities, at fair value | | | | |
| Interest rate swap | $ - | $ - | $ - | $ - |

Investments held for long-term purposes have been board-designated as described in Note 7 and such investments totaled $7,764,539 and $8,302,516 at September 30, 2018 and 2017, respectively.

Investment income consisted of the following for the years ended September 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Unrestricted | | |
| Realized gain on investments | $ 174,470 | $ 139,815 |
| Unrealized gain on investments | 91,817 | 576,125 |
| Interest and dividends | 301,983 | 260,177 |
| Investment management fees | (67,867) | (57,033) |
| | $ 500,403 | $ 919,084 |

## Note 4 - Retirement plans

- **Defined contribution:** The Association maintains a defined contribution 403(b) retirement plan for all eligible employees. The plan requires annual employer contributions equal to 10% of participants' compensation up to the Social Security taxable wage base. Retirement plan expense totaled $329,270 and $320,430 for the years ended September 30, 2018 and 2017, respectively.

- **Tax deferred annuity plan:** The Association also sponsors a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code. The plan is an employee elective deferral retirement plan, which covers all eligible participants as stipulated by the plan document. The Association makes no contributions under this plan.

## Note 5 - Property and equipment

Acquisitions of equipment and furniture greater than $500 and acquisitions of software greater than $1,000 are recorded at cost. Using the straight-line method, depreciation of property and equipment is recorded over the following estimated useful lives: buildings – forty-one years; equipment and software - three to five years; and furniture - five years. Amortization of leasehold improvements is calculated using the straight-line method over the lesser of the remaining term of the office lease or the estimated useful life of the improvements.

Property and equipment consisted of the following at September 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Building | $ 7,656,031 | $ - |
| Equipment and software | 898,593 | 1,462,041 |
| Furniture | 208,488 | 272,111 |
| Leasehold improvements | - | 573,775 |
| Construction in progress | - | 94,844 |
| | 8,763,112 | 2,402,771 |
| Less accumulated depreciation and amortization | (511,598) | (2,128,123) |
| | $ 8,251,514 | $ 274,648 |

**Note 6 - Deferred revenue**

Revenue received in advance of the period in which it will be earned is reported as deferred revenue. Membership fees revenue is recognized in the applicable membership period. Registrations, exhibit fees, and sponsorships are recognized in the period in which the event occurs. Advertising revenue is recognized in the period in which the advertisement appears in a publication or online.

Deferred revenue consisted of the following at September 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Membership fees | $ 1,952,900 | $ 2,083,956 |
| Registrations | 385,953 | 540,781 |
| Publication sales and service fees | 212,334 | 197,969 |
| Exhibit fees | 188,730 | 155,300 |
| Sponsorships and advertising | 49,256 | 79,531 |
| | $ 2,789,173 | $ 3,057,537 |

**Note 7 - Net assets**

- **Unrestricted:** Unrestricted net assets 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. Descriptions of the Associations board-designated net assets are as follows:
    - **Endowment:** The endowment category was established by the Board of Directors in order to generate a permanent, steady stream of investment income for the Association (see Note 8). The Association transferred $1,000,000 from the endowment to the

operating account during the year ended September 30, 2018 in order to fund the purchase of AACRAO's office building. The Association transferred $300,000 from other categories to the endowment during the year ended September 30, 2017. In accordance with the investment policy, the endowment must have a minimum balance of $1,000,000.

- **Infrastructure:** The infrastructure category was established for the purposes of supporting equipment and hardware upgrades, software acquisition and development, office repairs and improvement, or similar infrastructure costs that are unexpected, and therefore unbudgeted, or that the Board considers imprudent to fund from continuing operations. In accordance with the investment policy, the infrastructure category must have a minimum of $100,000 and a maximum of $1,000,000.

- **Strategic Initiatives and Investments:** The strategic initiatives and investment strategy was established to provide means for the Association to develop new programs or replace outdated ones, and to expand the Association's interests and endeavors or to invest in new revenue producing opportunities. In accordance with the investment policy, this category must have a minimum of $100,000 and a maximum of $1,000,000.

- **Conner Fund:** The Conner Scholarship Fund, named for John Douglas Conner, the first Executive Director of AACRAO who served from 1966 until his retirement in 1988, provides support for new and aspiring AACRAO professionals to facilitate travel to and participation in AACRAO meetings and conferences. Per the investment policy, there are no restrictions on limits.

Unrestricted net assets consisted of the following funds at September 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Board-designated | | |
| Endowment | $ 7,764,539 | $ 8,302,516 |
| Infrastructure | 1,000,000 | 1,000,000 |
| Strategic initiatives and investments | 1,000,000 | 1,000,000 |
| Conner fund | 81,081 | 79,596 |
| | 9,845,620 | 10,382,112 |
| Undesignated | 1,511,627 | 419,753 |
| | $ 11,357,247 | $ 10,801,865 |

Temporarily restricted: Temporarily restricted net assets primarily consist of a donor restricted grant to develop model college/university transcripts. Net assets were released from restrictions by incurring expenses satisfying the donor's restricted purpose. Temporarily restricted net assets consisted of the following as of September 30, 2018 and 2017:

| Purpose restricted | September 30, 2016 | Additions | Releases | September 30, 2017 | Additions | Releases | September 30, 2018 |
|---|---|---|---|---|---|---|---|
| Model transcripts | $ 494,035 | $ 92 | $ (494,127) | $ - | $ 1,199,540 | $ (347,121) | $ 852,419 |

## Note 8 - Endowment

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Association has a board-designated endowment fund which is classified entirely within unrestricted net assets. Furthermore, the Association has no traditional donor-restricted endowment funds.

**Interpretation of relevant law**
The Association's Board of Directors has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2007* ("UPMIFA"), enacted by the District of Columbia, as requiring the preservation of the real (inflation-adjusted) purchasing power of the donor restricted endowment funds absent donor stipulations to the contrary. As a result of its interpretation, the Association classifies its board-designated endowment within unrestricted assets.

**Return objectives and risk parameters**
The Association has adopted investment and spending policies for endowment assets that attempt to provide a steady stream of income to the Association while preserving and maintaining the purchasing power of the endowment assets over time. Under the investment policy, as approved by the Board of Directors, the endowment assets are invested in a diverse portfolio so as to minimize risk and maximize growth.

**Strategies employed for achieving objectives**
To satisfy its long-term rate-of-return objectives, the Association 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). The Association targets a diversified asset allocation of equity, fixed income, and other securities to achieve its long-term objectives.

**Spending policy and how the investment objectives relate to spending policy**
Distributions from the endowment will not begin until the endowment fund reaches $10,000,000. Once this level is reached, the Association's spending policy calls for annual appropriations of less than or equal to 5% of the endowment fund's average fair market value for the preceding 12 quarters. As a result, the endowment will be permitted to grow through investment earnings and additional transfers until it is able to generate a permanent, steady stream of investment income for the Association. In the year ended September 30, 2018, the Organization's Board of Directors approved a transfer of $1,000,000 from the endowment account to the operating account to help fund the acquisition of an office building.

Endowment balances and changes in endowment fund consisted of the following as of and for the year ended September 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Endowment, beginning of year | $ 8,302,516 | $ 7,083,691 |
| Investment return | | |
| Net gain on investments | 266,287 | 715,940 |
| Interest and dividends | 263,603 | 259,918 |
| Investment management fees | (67,867) | (57,033) |
| | 8,764,539 | 8,002,516 |
| Transfers | (1,000,000) | 300,000 |
| Endowment, end of year | $ 7,764,539 | $ 8,302,516 |

## Note 9 - Long-term debt

### Revenue bonds

On December 1, 2017, the Association entered into an indenture of trust with Branch Banking and Trust Company as holder of $6,000,000 of revenue bonds issued by the District of Columbia, entitled the District of Columbia Variable Rate Revenue Bonds (American Association of Collegiate Registrars and Admissions Officers Issue) Series 2017 ("the Bonds"). The proceeds from the Bonds were used to pay for the acquisition of an office building during the year ended September 30, 2018. The Bonds are secured by the office building. The Bonds bear interest based on a formula with one month London Interbank Offered Rate (LIBOR). Monthly interest payments on the Bonds commenced on February 1, 2018. The interest rate was 2.81% at September 30, 2018. The maturity date of the Bonds is March 1, 2028. During the year ended September 30, 2018, interest expense on the Bonds of $85,490 was incurred, inclusive of amortization of debt issuance costs of $19,715. Interest of $80,241 was capitalized through completion of construction of the building. As of September 30, 2018, outstanding principal and accrued interest was $6,000,000 and $14,050, respectively.

Debt issuance costs, net of accumulated amortization, totaled $243,149 as of September 30, 2018. Debt issuance costs on the above loan are being amortized on a straight-line basis over the ten-year life of the loan.

On December 28, 2017, the Association entered into a revolving line of credit with Branch Banking and Trust Company in the original amount of $1,000,000. The line bears interest based on a one month LIBOR plus 2.50%. The interest rate was 4.47% at September 30, 2018. The line matures on December 28, 2018. At September 30, 2018, no funds were drawn on the line.

## Note 10 - Interest rate swap agreement

The Association has an interest rate swap agreement with a notional amount equal to the obligation under the loan. At September 30, 2018, the effective fixed rate of the swap was 3.34%. The termination date of the interest rate swap is March 1, 2028. This mechanism allowed the Association to realize the potential benefit of a lower fixed rate. At September 30, 2018 and 2017, the fair value of the interest rate swap was projected to be a liability of $47,018 and $0, respectively.

## Note 11 - Commitments and contingencies

- **Office lease:** The Association has an operating lease for office space, which was extended through August 31, 2018. The lease did not require a security deposit but it did require that the Association maintain its membership status with the American Council on Education, the landlord. The lease also contained an escalation clause that adjusted the annual base rentals until year eight of the lease term. For years eight, nine, and 10 of the lease term, the base rentals remained constant without escalation. Generally accepted accounting principles require that the scheduled rent increases resulting from the escalation of base rentals be recorded as a liability and amortized ratably over the life of that lease. Therefore, the Association had recorded a deferred rent liability in the accompanying statement of financial position, for the year ended September 30, 2017, which is being amortized on a basis to achieve straight-line expense over the life of the lease. The lease was not renewed after August 31, 2018 and no deferred rent liability is recorded for the year ended September 30, 2018.

  Rent expense, including pass through costs such as real estate taxes and operating expenses, totaled $289,162 and $306,282 for the years ended September 30, 2018 and 2017, respectively.

- **Hotel contracts:** The Association has contracts with various hotels for future conferences and meetings. In the event that the Association cancels an event, it could be liable for liquidated damages incurred by the hotels in accordance with the terms of the agreements.

- **Employment agreements:** The Association has an employment agreement with a key employee. Under the terms of the agreement, should the Association terminate the employee without cause, it would be obligated to pay severance, the terms of which are stipulated in the employment agreement.

## Note 12 - Subsequent events

Events that occur after the date of the statement of financial position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Association through December 17, 2018 and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.