

**Society of Fire Protection Engineers
and the SFPE Educational and Scientific Foundation**

**Consolidated Financial Statements
and Independent Auditors' Report**

December 31, 2016

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Brooks, Harrison Company, L.L.C.

2275 Research Boulevard, Suite 500
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Society of Fire Protection Engineers, Inc.

We have audited the accompanying consolidated financial statements of the Society of Fire Protection Engineers, Inc. and the SFPE Education and Scientific Foundation, Inc. (the Organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Society of Fire Protection Engineers, Inc. and SFPE Education and Scientific Foundation, Inc. as of December 31, 2016, and the consolidated changes in the net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statements of financial position and activities are presented for the purpose of additional analysis and are not a required part of the 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 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.

Brooks, Harrison Company

Rockville, Maryland
May 8, 2017

Society of Fire Protection Engineers and SFPE Foundation
Consolidated Statement of Financial Position
December 31, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 569,548
Accounts receivable	114,405
Prepaid expenses	115,030
Inventory	36,853
Total current assets	835,836

Property and Equipment

Equipment, furnishings, and software	136,630
Less accumulated depreciation	(53,277)
Total property and equipment	83,353

Other Assets

Deposits	21,320
Life insurance	58,880
Investments	1,892,987
Total other assets	1,973,187

Total Assets

\$ 2,892,376

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 243,880
Deferred membership dues	543,812
Total current liabilities	787,692

Net Assets

Temporarily restricted net assets	125,137
Unrestricted net assets	1,979,547
Total net assets	2,104,684

Total Liabilities and Net Assets

\$ 2,892,376

The accompanying notes are an integral part of these financial statements.

Society of Fire Protection Engineers and SFPE Foundation
Combined Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Membership dues	\$ 908,440	\$ -	\$ 908,440
Contributions and sponsorship	10,182	30,600	40,782
Continuing education and conferences	793,821	-	793,821
Publications and merchandise	285,623	-	285,623
Royalties	274,328	-	274,328
Interest and dividends	36,730	-	36,730
Gain (loss) on investments	106,133	5,728	111,861
Other income	5,265	-	5,265
Total unrestricted support and revenue	<u>2,420,522</u>	<u>36,328</u>	<u>2,456,850</u>
 Net assets released from restrictions	 39,527	 (39,527)	 -
Total support and revenue	<u>2,460,049</u>	<u>(3,199)</u>	<u>2,456,850</u>
 Expenses			
Program services:			
Membership	214,066	-	214,066
Education	32,995	-	32,995
Marcom	246,818	-	246,818
Technical initiative	77,486	-	77,486
Meetings	657,097	-	657,097
Pro Quals	65,790	-	65,790
Products	19,405	-	19,405
Total program service expenses	<u>1,313,657</u>	<u>-</u>	<u>1,313,657</u>
 Supporting services:			
Management, general and governance	787,264	-	787,264
Total expenses	<u>2,100,921</u>	<u>-</u>	<u>2,100,921</u>
 Change in net assets	 359,128	 (3,199)	 355,929
 Net Assets, Beginning of Year	 <u>1,620,419</u>	 <u>128,336</u>	 <u>1,748,755</u>
 Net Assets, End of Year	 <u>\$ 1,979,547</u>	 <u>\$ 125,137</u>	 <u>\$ 2,104,684</u>

The accompanying notes are an integral part of these financial statements..

Society of Fire Protection Engineers and SFPE Foundation
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows from Operating Activities	
Change in net assets	\$ 355,929
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	13,728
Gain on investments	(111,861)
Effects of changes in operating assets and liabilities:	
Accounts receivables	(89,823)
Prepaid expenses	(56,293)
Inventory	(2,838)
Other assets	(2,598)
Accounts payable and accrued expenses	71,961
Deferred revenue	88,243
Net cash provided by operating activities	<u>266,448</u>
 Cash Flows from Investing Activities	
Purchases of equipment and software	(12,063)
Purchases of investments	<u>(169,390)</u>
Net cash used in investing activities	<u>(181,453)</u>
 Net Increase in Cash and Cash Equivalents	 84,995
 Cash and Cash Equivalents, Beginning of Year	 <u>484,553</u>
 Cash and Cash Equivalents, End of Year	 <u><u>\$ 569,548</u></u>

The accompanying notes are an integral part of these financial statements..

Society of Fire Protection Engineers and SFPE Foundation
Notes to Financial Statements
December 31, 2016

Note 1 – Nature of Activities

The Society of Fire Protection Engineers, Inc. (SFPE) was organized in 1950 under the general laws of the Commonwealth of Massachusetts as a nonprofit, non-stock corporation. SFPE is a professional society for engineers involved in the multifaceted field of fire protection engineering. SFPE's purpose is to advance the science of fire protection engineering and its allied fields, to maintain a high ethical standing among its members, and to foster fire protection engineering education.

SFPE's worldwide members include engineers in private practice, in industry, in local, regional and national government, as well as technical members of the insurance industry. Chapters of SFPE are located in North America, Europe, Asia-Oceania and the Middle East. SFPE generates revenue primarily from dues, conferences, publications, educational programs, and grants.

The SFPE Educational and Scientific Foundation, Inc. (the Foundation) was organized under the general laws of the Commonwealth of Massachusetts as a nonprofit, non-stock corporation, to carry out Educational and Charitable activities related to fire protection engineering. The members of the Foundation's board of governors are appointed by the Board of Directors of SFPE.

The main offices for SFPE and the Foundation (the Organizations) are located in Gaithersburg, Maryland.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Organizations have been prepared on the accrual basis of accounting. In accordance with accounting principles generally accepted in the United States, the Organizations report net assets as unrestricted, temporarily restricted, and/or permanently restricted, based on the existence of donor-imposed restrictions. However, all net assets are unrestricted as of December 31, 2016. Contributions that are temporarily restricted and are received in the same fiscal year that restrictions are satisfied, are classified as unrestricted.

Cash and Cash Equivalents

The Organizations consider money market funds and all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Organizations record an allowance for doubtful accounts when management believes accounts, grants, contributions, and royalties receivable are uncollectible. As of December 31, 2016, no allowance for doubtful accounts was considered necessary.

Society of Fire Protection Engineers and SFPE Foundation
Notes to Financial Statements
December 31, 2016

Prepaid Expenses

Prepaid expenses comprise payments made in advance, for services to be incurred in future periods, such as payments of rent and insurance for future periods.

Inventories

Inventories consist of books, directories, proceedings, study guides, logo merchandise, and videos. Inventory is recorded at cost, less a provision for obsolete inventory.

Fair Value of Financial Instruments

Estimated fair value amounts have been determined using available market information and the valuation methodology described below. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts the Organization could realize in a current market. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of cash equivalents and receivables approximate fair value due to the short-term nature of these instruments.

Property, Equipment, and Depreciation

Equipment, furnishings, computer software, and leasehold improvements are carried at cost. Depreciation of equipment, furnishings, and computer software is computed using the straight-line method over the estimated service lives of the respective assets. Depreciation of leasehold improvements is computed using the straight-line method over the term of the lease.

Depreciation expense totaled \$13,728 for the year ended December 31, 2016.

Life Insurance

The Foundation is the beneficiary of a whole life insurance policy, and the cash surrender value of the policy is recorded in the accompanying statement of financial position.

Deferred Revenue

Revenue is recognized in the statement of activities when earned. Unearned accounts receivable and cash received in excess of earned revenue is recorded as deferred revenue. Revenue from books, directories, study guides, logo merchandise, and videos is recorded at the time customers provide a satisfactory form of payment and take ownership.

Deferred Membership Dues

Membership dues revenue is recognized as earned ratably over the membership period. Unearned amounts are recorded as deferred membership dues until recognized.

Society of Fire Protection Engineers and SFPE Foundation
Notes to Financial Statements
December 31, 2016

Net Asset Classifications

The net assets are classified and reported in the following three groups:

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

Temporarily restricted net assets include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organization and the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Permanently restricted net assets include net assets subject to donor-imposed restrictions that are to be retained in perpetuity.

As of, and for the year ended, December 31, 2016, there were no permanently restricted net assets.

Contributions and Sponsorship

Contributions, including sponsorship, are recognized as support in the accompanying statement of activities, when related unconditional promises to give, are received. Conditional contributions are recorded as deferred support until donor-stipulated conditions are met.

Income Taxes

SFPE is exempt from income taxes under provisions of Section 501(c)(6) of the Internal Revenue Code (the Code), except for taxes on unrelated business income as defined in the Code. The Foundation is exempt from income taxes under provisions of Section 501(c)(3) of the Code, except for taxes on unrelated business income. During 2016, SFPE and the Foundation had no taxable unrelated business income. Accordingly, there is no provision for income tax reflected on the statement of activities. SFPE and the Foundation have no uncertain tax positions that warrant disclosure.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organizations have evaluated subsequent events through May 8, 2017, the date which the financial statements were available to be issued.

Society of Fire Protection Engineers and SFPE Foundation
Notes to Financial Statements
December 31, 2016

Note 3 – Lease Commitments

During 2015, a new operating lease for office space commenced on April 1, 2016 and expires on March 31, 2026. In addition to rent, SFPE is obligated to pay a ratable share of the annual operating costs of the building.

Under the new operating lease, no rent payments are due for the first 18 months of the lease. However, rent expense is recorded in the accompanying financial statements on a straight-line basis, in accordance with U.S. generally accepted accounting principles. Therefore, the total payment amount required over the 132-month lease-term is charged to expense equally each month. The difference between the accumulated lease payments, and the amount charged to expense, is reflected in the statement of financial position as accrued rent expense.

Future minimum lease payments under the operating leases are as follows:

For the Year Ending December 31	Amount
2017	\$ 133,616
2018	136,556
2019	139,560
2020	142,630
2021	145,768
Thereafter	<u>656,486</u>
Total	<u>\$ 1,354,616</u>

Rent payments, including escalation clauses, are recognized as rent expense on the straight-line basis. The difference between the actual lease payments and the straight-line recognition is recorded as deferred rent and is included in “accrued expenses” in the accompanying statements of financial position.

Note 4 – Retirement Plan

SFPE employees are covered under a Safe Harbor 401(k) plan under the Internal Revenue Code. Employees receive a Safe Harbor non-elective contribution equal to 3.0% of their compensation after six months of service, even if they do not make any elective deferral contributions. The Safe Harbor non-elective contribution is allocated at the end of each payroll period ending within the plan year based on compensation within the computation period. Plan participants may defer up to 90% of annual income, subject to annual legal limitations. Additionally, SFPE can elect to make additional discretionary contributions up to 4%. Employees are always 100% fully vested in the elective deferral, Safe Harbor non-elective, and rollover (if any) contribution accounts. In most other cases, if a participant leaves the company they are vested in the matching contributions and non-elective contributions account as follows: less than one year, 0%; at least 1 year but less than 2, 25%; at least 2 years but less than 3, 50%; 3 years or more, 100%. Retirement contribution expense charged to operations for the year ended December 31, 2016, was \$37,146.

Society of Fire Protection Engineers and SFPE Foundation
Notes to Financial Statements
December 31, 2016

Note 5 – Related Party Transactions

During the current year, SFPE earned management fee revenue of \$3,287 from the Foundation. The fee is calculated on 2% of the first \$100,000 of the net assets of the Foundation as of December 31, 2016; 1% of the next \$100,000 of the net assets of the Foundation as of December 31, 2016; and then 0.5% of the remaining net assets of the Foundation as of December 31, 2016. Transactions between SFPE and the Foundation are eliminated in preparing the accompanying consolidated financial statements.

During 2016, SFPE received sponsorship, and program service revenue of \$34,500 from organizations affiliated with members of the board of directors.

Note 6 – Concentration of Financial Risk

SFPE and the Foundation maintain cash in two banks. At times, cash balances may exceed the federal insurance limits. However, SFPE and the Foundation have not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2016.

Note 7 – Investments

Investments are comprised of cash and mutual funds with readily determinable fair market values that are measured at fair value in the statement of financial position. Quoted prices are available in active markets for identical investments as of the reporting date. Investment income or losses (including gains and losses on investments, interest, and dividends) is included on the statement of activities as increases or decreases in unrestricted net assets.

Note 8 – Temporarily Restricted Net Assets

At December 31, 2016, temporarily restricted net assets were available for the following programs:

Proulx	\$ 27,134
Bono	16,323
Burns	33,000
Guise	<u>48,680</u>
Total	<u>\$ 125,137</u>

SUPPLEMENTAL INFORMATION

Society of Fire Protection Engineers and SFPE Foundation
Consolidating Statement of Financial Position
December 31, 2016

	<u>SFPE</u>	<u>SFPE Foundation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 532,460	\$ 37,088	\$ -	\$ 569,548
Accounts receivable	117,466	-	(3,061)	114,405
Prepaid expenses	115,030	-	-	115,030
Inventory	36,853	-	-	36,853
Total current assets	<u>801,809</u>	<u>37,088</u>	<u>(3,061)</u>	<u>835,836</u>
Property and Equipment				
Equipment, furnishings, and software	136,630	-	-	136,630
Less accumulated depreciation	(53,277)	-	-	(53,277)
Total property and equipment	<u>83,353</u>	<u>-</u>	<u>-</u>	<u>83,353</u>
Other Assets				
Deposits	21,320	-	-	21,320
Life insurance	-	58,880	-	58,880
Investments	1,691,210	201,777	-	1,892,987
Total other assets	<u>1,712,530</u>	<u>260,657</u>	<u>-</u>	<u>1,973,187</u>
Total Assets	<u><u>\$ 2,597,692</u></u>	<u><u>\$ 297,745</u></u>	<u><u>\$ (3,061)</u></u>	<u><u>\$ 2,892,376</u></u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable and accrued expenses	\$ 243,880	\$ 3,061	\$ (3,061)	243,880
Deferred membership dues	543,812	-	-	543,812
Total current liabilities	<u>787,692</u>	<u>3,061</u>	<u>(3,061)</u>	<u>787,692</u>
Net Assets	<u>1,810,000</u>	<u>294,684</u>	<u>-</u>	<u>2,104,684</u>
Total Liabilities and Net Assets	<u><u>\$ 2,597,692</u></u>	<u><u>\$ 297,745</u></u>	<u><u>\$ (3,061)</u></u>	<u><u>\$ 2,892,376</u></u>

See Independent Auditors' Report.

Society of Fire Protection Engineers and SFPE Foundation
Consolidating Statement of Activities
Year Ended December 31, 2016

	SFPE	SFPE Foundation	Eliminations	Total
Support and Revenue				
Membership dues	\$ 908,440	\$ -	\$ -	\$ 908,440
Contributions and sponsorship	-	40,782	-	40,782
Continuing education programs and conferences	793,821	-	-	793,821
Publications and merchandise	285,623	-	-	285,623
Royalties	274,328	-	-	274,328
Interest and dividends	31,733	4,997	-	36,730
Gain (loss) on investments	93,279	18,582	-	111,861
Other income	8,552	-	(3,287)	5,265
Total support and revenue	<u>2,395,776</u>	<u>64,361</u>	<u>(3,287)</u>	<u>2,456,850</u>
Expenses				
Program services				
Membership	214,066	-	-	214,066
Education	-	32,995	-	32,995
Marcom	246,818	-	-	246,818
Technical initiative	77,486	-	-	77,486
Meetings	657,097	-	-	657,097
Pro Quals	65,790	-	-	65,790
Products	19,405	-	-	19,405
Total program service expenses	<u>1,280,662</u>	<u>32,995</u>	<u>-</u>	<u>1,313,657</u>
Management and general	776,907	13,644	(3,287)	787,264
Total expenses	<u>2,057,569</u>	<u>46,639</u>	<u>(3,287)</u>	<u>2,100,921</u>
Change in net assets	338,207	17,722	-	355,929
Net Assets, Beginning of Year	<u>1,471,793</u>	<u>276,962</u>	<u>-</u>	<u>1,748,755</u>
Net Assets, End of Year	<u>\$ 1,810,000</u>	<u>\$ 294,684</u>	<u>\$ -</u>	<u>\$ 2,104,684</u>

See Independent Auditors' Report.