



TAX | ASSURANCE | CONSULTING

**SOCIETY OF FIRE PROTECTION
ENGINEERS AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2018 and 2017



SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

For the Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Society of Fire Protection Engineers and Subsidiary
Gaithersburg, Maryland

We have audited the accompanying consolidated financial statements of the Society of Fire Protection Engineers and Subsidiary (together, the Organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses (2018 only) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities for 2018 beginning on page 17 are presented for purposes of additional analysis and are 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, in 2018 the Organization adopted new accounting guidance in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The guidance has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

E. Cohen and Company, CPAs

June 5, 2019

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 273,411	\$ 276,484
Accounts receivable, net	202,198	154,563
Contributions receivable	57,800	-
Prepaid expenses	119,895	135,858
Inventory	18,265	19,455
Total current assets	671,569	586,360
Investments	2,480,257	2,603,956
Property and equipment, net	56,907	70,023
Other assets		
Deposits	21,320	21,320
Cash surrender value of life insurance	60,328	59,462
Total other assets	81,648	80,782
Total assets	\$ 3,290,381	\$ 3,341,121

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 99,060	\$ 120,553
Deferred revenue	606,436	660,116
Deferred rent, current portion	12,748	9,348
Total current liabilities	718,244	790,017
Deferred rent, net of current portion	162,394	175,142
Total liabilities	880,638	965,159
Net assets		
Net assets without donor restrictions	2,278,519	2,270,453
Net assets with donor restrictions	131,224	105,509
Total net assets	2,409,743	2,375,962
Total liabilities and net assets	\$ 3,290,381	\$ 3,341,121

See notes to consolidated financial statements.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue			
Membership dues	\$ 1,034,681	\$ -	\$ 1,034,681
Continuing education and conferences	1,060,955	-	1,060,955
Royalties	366,681	-	366,681
Publications and merchandise	58,116	-	58,116
Contributions and sponsorships	66,572	40,715	107,287
Investment loss, net	(125,447)	-	(125,447)
Other revenue	20,266	-	20,266
Net assets released from restriction	15,000	(15,000)	-
	<u>2,496,824</u>	<u>25,715</u>	<u>2,522,539</u>
Expenses			
Program services	1,799,759	-	1,799,759
Supporting services			
Management and general	648,817	-	648,817
Fundraising	40,182	-	40,182
	<u>2,488,758</u>	<u>-</u>	<u>2,488,758</u>
Total expenses	<u>2,488,758</u>	<u>-</u>	<u>2,488,758</u>
Change in net assets	8,066	25,715	33,781
Beginning net assets	<u>2,270,453</u>	<u>105,509</u>	<u>2,375,962</u>
Ending net assets	<u>\$ 2,278,519</u>	<u>\$ 131,224</u>	<u>\$ 2,409,743</u>

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Membership dues	\$ 941,667	\$ -	\$ 941,667
Continuing education and conferences	871,662	-	871,662
Royalties	450,930	-	450,930
Publications and merchandise	66,889	-	66,889
Contributions and sponsorships	20,754	14,372	35,126
Investment income, net	267,857	-	267,857
Other revenue	22,008	-	22,008
Net assets released from restriction	34,000	(34,000)	-
	2,675,767	(19,628)	2,656,139
Expenses			
Program services	1,573,073	-	1,573,073
Supporting services			
Management and general	812,925	-	812,925
	2,385,998	-	2,385,998
Total expenses	2,385,998	-	2,385,998
Change in net assets	289,769	(19,628)	270,141
Beginning net assets, as previously reported	1,978,547	125,137	2,103,684
Prior period adjustments, net	2,137	-	2,137
Beginning net assets, as restated	1,980,684	125,137	2,105,821
Ending net assets	\$ 2,270,453	\$ 105,509	\$ 2,375,962

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services										Total Supporting Services	Total Expenses
	Membership	Education	Marcom	Technical Initiative	Meetings	ProQuals	Products	Program Services	Management and General	Fundraising		
Salaries and wages	\$ 113,687	\$ -	\$ 60,436	\$ 86,332	\$ 189,273	\$ 73,642	\$ 3,609	\$ 526,979	\$ 285,575	\$ 26,871	\$ 312,446	\$ 839,425
Fringe benefits	26,796	-	14,245	20,349	44,612	17,358	850	124,210	67,311	6,334	73,645	197,855
Travel	8,227	-	528	12,706	42,171	17,401	-	81,033	35,049	-	35,049	116,082
Meetings expense	6,251	-	-	1,765	447,302	4,558	-	459,876	19,905	-	19,905	479,781
Professional services	46,645	-	73,778	1,500	58,339	80	40	180,382	86,163	1,000	87,163	267,545
Depreciation	-	-	-	-	-	-	-	-	15,564	-	15,564	15,564
Bank fees	-	-	-	-	10,195	-	-	10,195	56,834	472	57,306	67,501
Dues, registrations and licenses	9,169	-	1,333	5,864	19,398	26,036	-	61,800	13,401	-	13,401	75,201
Occupancy and equipment	18,958	-	10,078	14,397	31,563	12,281	602	87,879	47,623	4,481	52,104	139,983
Postage and delivery	7,297	-	19,002	-	2,463	-	3,438	32,200	156	-	156	32,356
Office expenses	-	-	-	-	-	-	-	-	7,079	-	7,079	7,079
Photocopying and printing	2,312	-	17,505	-	20,628	-	-	40,445	1,344	-	1,344	41,789
Insurance	2,491	-	1,324	1,891	4,147	1,613	79	11,545	6,257	589	6,846	18,391
Telephone and internet	1,290	-	686	979	2,147	835	41	5,978	3,239	305	3,544	9,522
Commissions and fees	-	-	-	-	94,513	-	120	94,633	-	-	-	94,633
Costs of goods sold	136	-	-	-	-	-	5,773	5,909	716	-	716	6,625
Marketing	8,940	-	16,265	-	24,727	1,207	-	51,139	-	-	-	51,139
Other expenses	328	-	174	249	546	213	10	1,520	2,040	78	2,118	3,638
Property taxes	223	-	119	170	372	145	7	1,036	561	52	613	1,649
Grants and scholarships	-	23,000	-	-	-	-	-	23,000	-	-	-	23,000
	<u>\$ 252,750</u>	<u>\$ 23,000</u>	<u>\$ 215,473</u>	<u>\$ 146,202</u>	<u>\$ 992,396</u>	<u>\$ 155,369</u>	<u>\$ 14,569</u>	<u>\$ 1,799,759</u>	<u>\$ 648,817</u>	<u>\$ 40,182</u>	<u>\$ 688,999</u>	<u>\$ 2,488,758</u>

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 33,781	\$ 270,141
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	15,564	14,779
Loss on disposal of fixed assets	1,079	-
Net realized gains on investments	(1,236)	(220)
Net unrealized gains (losses) on investments	199,102	(214,021)
Net changes in:		
Accounts receivable, net	(47,635)	(40,158)
Contributions receivable	(57,800)	-
Prepaid expenses	15,963	(20,830)
Inventory	1,190	17,399
Cash surrender value of life insurance	(866)	(582)
Accounts payable and accrued expenses	(21,493)	71,399
Deferred revenue	(53,680)	116,304
Deferred rent	(9,348)	(5,998)
	74,621	208,213
Net cash provided by operating activities		
Cash flow from investing activities		
Proceeds from sale of investments	7,000	4,955
Purchase of investments	(81,167)	(502,683)
Purchase of property and equipment	(3,527)	(3,549)
	(77,694)	(501,277)
Net cash used in investing activities		
Net decrease in cash and cash equivalents	(3,073)	(293,064)
Cash and cash equivalents, beginning	276,484	569,548
Cash and cash equivalents, ending	\$ 273,411	\$ 276,484

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Description of organization

The Society of Fire Protection Engineers (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, industry, 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 (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 SFPE's Board of Directors.

2. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of SFPE and the Foundation (together, the Organization). All significant intercompany items have been eliminated in consolidation. The accompanying consolidated financial statements do not include the assets and accounts of local member societies, each of which is autonomous and not under the direction or control of the Organization.

Basis of accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation

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. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources 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.

Cash and cash equivalents

The Organization considers all money market funds to be cash equivalents. In addition, the Organization considers all highly liquid investments with the investment custodian to facilitate investment transactions as investments in the consolidated statements of financial position, and not cash equivalents.

Accounts receivable

The Organization's accounts receivable consists primarily of amounts related to membership dues and royalties. Accounts receivable are valued at management's estimate of the amount that will be ultimately collectible. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Organization's historical collection experience. The allowance for doubtful accounts receivable was zero at December 31, 2018 and 2017.

Contributions receivable

The Organization's contributions receivable represents unconditional promises to give. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Long-term contributions receivable, those that are expected to be collected in future years, are recorded at the present value of their estimated future cash flows. For the years ended December 31, 2018 and 2017, there are no long-term contributions receivable. The allowance for doubtful contributions receivable was zero at December 31, 2018 and 2017.

Prepaid expenses

Prepaid expenses represent costs paid prior to year-end for conferences and other program activities that will occur in a subsequent year. Expenses will be recognized as the activities occur.

Inventory

Inventory consists of publications, study guides, logo merchandise, and videos. Inventory is valued at cost, less a provision for obsolescence, using the first-in, first-out method.

Investments

Investments are carried at fair value as of the date of the consolidated statements of financial position, which may differ from the amount ultimately realized at the time of sale. Realized and unrealized losses are reflected in the consolidated statements of activities. The costs of securities sold are determined by the specific identification method.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. Summary of significant accounting policies (continued)

Property and equipment

All purchases of property and equipment in excess of \$500 are capitalized at cost and depreciated using the straight-line method over their estimated useful lives ranging from three to thirty years. Costs of repairs and maintenance are expensed as incurred.

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 consolidated statements of financial position.

Deferred revenue

Deferred revenue consists of membership dues and conference registrations collected in advance. Dues are recorded as deferred revenue upon receipt and are recognized as revenue ratably over the period to which the fees relate.

Deferred rent

In accordance with accounting principles generally accepted in the United States of America, the Organization recognizes the total cost of its office lease on a straight-line basis over the life of the lease. The difference between rent paid and rent expense is recorded as a deferred rent liability on the consolidated statements of financial position.

Revenue recognition

Revenue is recognized when earned. Program service fees received in advance are deferred to the applicable period which the related services are performed. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Functional expense allocation

The costs of program and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Costs that can be identified with a particular program or supporting function are charged directly to that program function. Expenses that are not specifically identified with a particular program are allocated among programs and supporting services using management's functional expense allocation methodology, which is based upon a combination of estimated allocation of hours.

Income taxes

SFPE is exempt from federal and state income taxes (except taxes on unrelated business income) under Section 501(c)(6) of the Internal Revenue Code. The Foundation is exempt from federal and state income taxes (except taxes on unrelated business income) under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. Summary of significant accounting policies (continued)

Income taxes (continued)

No provision for income taxes is required for the years ended December 31, 2018 and 2017, as the Organization had no taxable income from unrelated business activities.

The income tax positions taken by the Organization for any years open under the various statutes of limitations are that the Organization continues to be exempt from income taxes and that the Organization has properly reported unrelated business income that is subject to income taxes. The Organization believes there are no tax positions taken or expected to be taken that would significantly increase unrecognized tax liabilities within 12 months of the reporting date. None of the Organization's federal or state income tax returns are currently under examination.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in accounting principle

On August 18, 2016, FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented. There is no impact on the prior year change in net assets.

Pending accounting standards

A new standard has been issued by the FASB that will require changes in the method and timing of recognition of certain contract revenues and related incremental expenses. This standard will be adopted by the Organization beginning in 2019 and will entail certain retrospective adjustments at that time. The effects of this change on the Organization's consolidated financial statements have not yet been determined.

Effective for its annual financial statements for 2020 and thereafter, the Organization expects to adopt new accounting standards issued by FASB that will require significant changes in accounting for leases under which the Organization is a lessee. Upon adoption, among other effects, the Organization will be required to record assets and liabilities for all operating lease obligations with terms of 12 months or greater. These changes will entail certain retrospective adjustments.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. Summary of significant accounting policies (continued)

Pending accounting standards (continued)

The quantitative effects on the Organization's future consolidated financial statements of these changes and related retrospective adjustments have not yet been determined.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements to conform to the current year presentation.

3. Liquidity and availability

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

Cash and cash equivalents	\$	273,411
Accounts receivable		202,198
Contributions receivable, without donor restrictions		32,500
Investments		<u>2,480,257</u>
Financial assets available for general expenditure	\$	<u>2,988,366</u>

There are no restrictions, covenants, endowments, or board designated funds limiting the use of available liquid assets for general expenditure. The Organization's working capital and cash flows fluctuate during the year attributable mainly to the timing of annual cash receipts from membership dues as well as continuing education and conferences revenue. As part of the Organization's liquidity management plan, cash in excess of the Federal Deposit Insurance Corporation limits is invested in money market funds.

4. Concentration of credit risk

The Organization maintains its operating cash balances with high credit quality commercial banks and financial institutions. At times, these balances may exceed federal insurance limits. The Organization has not experienced any losses in cash and believes it is not exposed to significant credit risk. Cash and cash equivalents in excess of FDIC insured limits at December 31, 2018, approximated \$39,000.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

5. Investments and fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- *Level 1:* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date (e.g., equity securities traded on the New York Stock Exchange).
- *Level 2:* Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (e.g., quoted market prices of similar assets or liabilities in active markets, or quoted market prices for identical or similar assets or liabilities in markets that are not active).
- *Level 3:* Level 3 inputs are unobservable (e.g., a company's own data) and are used to measure fair value to the extent that observable inputs are not available.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of the unobservable inputs.

The following are the major categories of investments measured at fair value on a recurring basis as of December 31, 2018 and 2017, using quoted prices in active markets for identical assets (Level 1).

	<u>2018</u>	<u>2017</u>
Bank sweep funds	\$ 66,532	\$ 75,266
Mutual funds - bond funds	779,693	770,516
Mutual funds - equity funds	<u>1,634,032</u>	<u>1,758,174</u>
Total investments	<u>\$ 2,480,257</u>	<u>\$ 2,603,956</u>

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs. There have been no movements between levels from 2017 to 2018.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

5. Investments and fair value measurements (continued)

Investment revenues are reported net of related investment expenses in the consolidated statements of activities. Investment income (loss) consisted of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 88,395	\$ 66,877
Unrealized gains (losses)	(199,102)	214,021
Realized gains	1,236	220
Investment management fees	<u>(15,976)</u>	<u>(13,261)</u>
Investment income (loss), net	<u>\$ (125,447)</u>	<u>\$ 267,857</u>

6. Property and equipment

As of December 31, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 59,303	\$ 59,303
Office equipment	24,632	51,095
Software and hardware	<u>31,401</u>	<u>29,780</u>
	115,336	140,178
Less accumulated depreciation	<u>58,429</u>	<u>70,155</u>
Total property and equipment, net	<u>\$ 56,907</u>	<u>\$ 70,023</u>

Depreciation and amortization expense for the year ended December 31, 2018 and 2017, totaled \$15,564 and \$14,779, respectively.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

7. Deferred revenue

Deferred revenue includes monies received in advanced for various activities. As of December 31, deferred revenue consisted of the following:

	<u>2018</u>	<u>2017</u>
Membership dues	\$ 507,067	\$ 545,891
Corp 100 dues	56,500	62,175
Sponsorships and exhibits	34,009	29,159
Conference registrations	<u>8,860</u>	<u>22,891</u>
Total deferred revenue	<u>\$ 606,436</u>	<u>\$ 660,116</u>

8. Operating lease

The Organization entered into an operating lease for office space that expires in March 2026 and included an abatement for the first 18 months. In addition, the lease calls for annual increases in base rent and requires the Organization to pay a proportionate share of the annual building operating costs.

In accordance with accounting principles generally accepted in the United States of America, the Organization recognizes the total cost of its office space on a straight-line basis over the life of the lease. The difference between rent paid and rent expense is recorded as a deferred rent liability on the consolidated statements of financial position.

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

Years ending December 31:	
2019	\$ 140,328
2020	143,835
2021	147,438
2022	151,127
2023	154,900
Thereafter	<u>362,472</u>
	<u>\$ 1,100,100</u>

Total rent expense for the years ended December 31, 2018 and 2017, totaled \$139,983 and \$130,622, respectively.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

9. Net assets with donor restrictions

Net assets with donor restrictions were available for the following scholarship programs at December 31:

	2018	2017
Guise	\$ 47,680	\$ 47,680
Proulx	31,835	33,006
Bono	17,323	16,823
Fitzgerald	9,386	-
Student research fund	25,000	-
Burns	-	8,000
Total net assets with donor restrictions	<u>\$ 131,224</u>	<u>\$ 105,509</u>

10. Retirement plan

The Organization offers a 401(k) retirement plan. Employees are eligible to enter the plan after completing six months of service. Employees may contribute to this plan via salary deferrals up to applicable IRS limits. The Organization may provide discretionary contributions. The Organization also provides a safe harbor non-elective contribution of 3% of base salary, paid each pay period. Employee deferrals and safe harbor contributions are immediately vested. Discretionary contributions are subject to a three-year graded vesting schedule. For the year ended December 31, 2018 and 2017, contributions to the retirement plan were \$48,529 and \$52,131, respectively.

11. Commitments

The Organization has entered into agreements with vendors for various conferences and events in future years. The contracts contain contingency clauses whereby the Organization may be liable for liquidated damages in the event of cancellation.

12. Subsequent events

Management of the Organization has evaluated events or transactions that occurred after December 31, 2018 through June 5, 2019, the date the consolidated financial statements were available to be issued and has determined that no subsequent events or transactions have occurred that require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION DECEMBER 31, 2018

	SFPE	SFPE Foundation	Eliminations	Consolidated
ASSETS				
Current assets				
Cash and cash equivalents	\$ 176,590	\$ 96,821	\$ -	\$ 273,411
Accounts receivable, net	205,904	-	(3,706)	202,198
Contributions receivable	-	57,800	-	57,800
Prepaid expenses	119,895	-	-	119,895
Inventory	18,265	-	-	18,265
Total current assets	520,654	154,621	(3,706)	671,569
Investments	2,261,098	219,159	-	2,480,257
Property and equipment, net	56,907	-	-	56,907
Other assets				
Deposits	21,320	-	-	21,320
Cash surrender value of life insurance	-	60,328	-	60,328
Total other assets	21,320	60,328	-	81,648
Total assets	\$ 2,859,979	\$ 434,108	\$ (3,706)	\$ 3,290,381
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 99,060	\$ 3,706	\$ (3,706)	\$ 99,060
Deferred revenue	606,436	-	-	606,436
Deferred rent, current portion	12,748	-	-	12,748
Total current liabilities	718,244	3,706	(3,706)	718,244
Deferred rent, net of current portion	162,394	-	-	162,394
Total liabilities	880,638	3,706	(3,706)	880,638
Net assets				
Net assets without donor restrictions	1,979,341	299,178	-	2,278,519
Net assets with donor restrictions	-	131,224	-	131,224
Total net assets	1,979,341	430,402	-	2,409,743
Total liabilities and net assets	\$ 2,859,979	\$ 434,108	\$ (3,706)	\$ 3,290,381

See independent auditor's report on supplementary information.

SOCIETY OF FIRE PROTECTION ENGINEERS AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018

	SFPE			Consolidated
	SFPE	Foundation	Eliminations	
Activities without donor restrictions				
Revenue and support				
Membership dues	\$ 1,034,681	\$ -	\$ -	\$ 1,034,681
Continuing education and conferences	1,060,955	-	-	1,060,955
Royalties	366,681	-	-	366,681
Publications and merchandise	58,116	-	-	58,116
Contributions and sponsorships	-	116,572	(50,000)	66,572
Investment loss, net	(116,235)	(9,212)	-	(125,447)
Other revenue	23,997	-	(3,731)	20,266
Net assets released from restriction	-	15,000	-	15,000
Total revenue and support without donor restrictions	2,428,195	122,360	(53,731)	2,496,824
Expenses				
Program services				
Membership	252,750	-	-	252,750
Education	-	23,000	-	23,000
Marcom	215,473	-	-	215,473
Technical initiative	146,202	-	-	146,202
Meetings	992,396	-	-	992,396
ProQuals	155,369	-	-	155,369
Products	14,569	-	-	14,569
Total program services	1,776,759	23,000	-	1,799,759
Supporting services				
Management and general	698,680	3,868	(53,731)	648,817
Fundraising	38,710	1,472	-	40,182
Total expenses	2,514,149	28,340	(53,731)	2,488,758
Change in net assets without donor restrictions	(85,954)	94,020	-	8,066
Restricted activities				
Contributions and sponsorships	-	40,715	-	40,715
Net assets released from restriction	-	(15,000)	-	(15,000)
Change in net assets with donor restrictions	-	25,715	-	25,715
Change in net assets	(85,954)	119,735	-	33,781
Beginning net assets	2,065,295	310,667	-	2,375,962
Ending net assets	\$ 1,979,341	\$ 430,402	\$ -	\$ 2,409,743