



Financial Statements and Supplemental Information

For the Years Ended December 31, 2015 and 2014



**and
Report Thereon**



SOCIETY OF AMERICAN MILITARY ENGINEERS

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For the Years Ended December 31, 2015 and 2014

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Direction of the
Society of American Military Engineers

Report on the Financial Statements

We have audited the accompanying financial statements of the Society of American Military Engineers (SAME), which comprise the statements of financial position as of December 31, 2015 and 2014, 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 SAME as of December 31, 2015 and 2014, 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.

Continued

Other Matter*Report on Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses on page 19 is 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 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.

Raffa, P.C.

Raffa, P.C.

Washington, DC
April 18, 2016

SOCIETY OF AMERICAN MILITARY ENGINEERS

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 928,278	\$ 1,632,862
Accounts receivable, net of allowance for uncollectible accounts of \$3,000 in both 2015 and 2014	116,910	65,752
Prepaid expenses and deposits	377,005	238,188
Investments (Notes 2 and 3)	5,315,697	5,316,591
Investments held for deferred compensation (Notes 3 and 11)	55,150	113,754
Property and equipment, net (Note 4)	909,426	933,560
TOTAL ASSETS	\$ 7,702,466	\$ 8,300,707
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 204,703	\$ 631,436
Accrued payroll liabilities	92,365	152,916
Deferred compensation (Note 11)	55,150	113,754
Deferred revenue:		
Membership	950,572	986,750
Events	354,054	279,600
Advertising	18,496	23,551
TOTAL LIABILITIES	1,675,340	2,188,007
Net Assets		
Unrestricted		
Undesignated	5,130,112	5,260,466
Board-designated (Note 6)	611,489	569,612
Total Unrestricted Net Assets	5,741,601	5,830,078
Temporarily restricted (Note 7)	11,299	8,396
Permanently restricted (Notes 8 and 9)	274,226	274,226
TOTAL NET ASSETS	6,027,126	6,112,700
TOTAL LIABILITIES AND NET ASSETS	\$ 7,702,466	\$ 8,300,707

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

SOCIETY OF AMERICAN MILITARY ENGINEERS
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Conference registrations and income	\$ 3,003,365	\$ -	\$ -	\$ 3,003,365	\$ 2,848,175	\$ -	\$ -	\$ 2,848,175
Dues	2,042,500	-	-	2,042,500	2,173,583	-	-	2,173,583
Advertising	555,532	-	-	555,532	698,062	-	-	698,062
Investment income (loss) (Note 2)	(93,246)	(5,124)	-	(98,370)	348,758	12,386	-	361,144
Continuing education	78,594	-	-	78,594	149,610	-	-	149,610
Donations	-	26,059	-	26,059	-	36,938	2,750	39,688
Other income	50,862	-	-	50,862	28,231	-	-	28,231
Net assets released from restrictions:								
Satisfaction of program restrictions	18,032	(18,032)	-	-	53,321	(53,321)	-	-
TOTAL REVENUE AND SUPPORT	5,655,639	2,903	-	5,658,542	6,299,740	(3,997)	2,750	6,298,493
EXPENSES								
Program Services:								
Conferences and meetings	2,649,332	-	-	2,649,332	2,692,511	-	-	2,692,511
Post operations	931,211	-	-	931,211	705,904	-	-	705,904
Society publications	683,285	-	-	683,285	749,914	-	-	749,914
Continuing education	563,758	-	-	563,758	372,012	-	-	372,012
Membership activities	332,937	-	-	332,937	344,804	-	-	344,804
TISP	-	-	-	-	276,467	-	-	276,467
Total Program Services	5,160,523	-	-	5,160,523	5,141,612	-	-	5,141,612
Supporting Services:								
Management and general	582,082	-	-	582,082	770,197	-	-	770,197
Fundraising	1,511	-	-	1,511	1,248	-	-	1,248
Total Supporting Services	583,593	-	-	583,593	771,445	-	-	771,445
TOTAL EXPENSES	5,744,116	-	-	5,744,116	5,913,057	-	-	5,913,057
CHANGE IN NET ASSETS	(88,477)	2,903	-	(85,574)	386,683	(3,997)	2,750	385,436
NET ASSETS, BEGINNING OF YEAR	5,830,078	8,396	274,226	6,112,700	5,443,395	12,393	271,476	5,727,264
NET ASSETS, END OF YEAR	\$ 5,741,601	\$ 11,299	\$ 274,226	\$ 6,027,126	\$ 5,830,078	\$ 8,396	\$ 274,226	\$ 6,112,700

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

SOCIETY OF AMERICAN MILITARY ENGINEERS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (85,574)	\$ 385,436
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	77,511	80,661
Net realized and unrealized losses (gains) on investments	363,130	(118,966)
Changes in assets and liabilities:		
Accounts receivable	(51,158)	(15,917)
Prepaid expenses and deposits	(138,817)	(100,356)
Accounts payable and accrued expenses	(426,733)	541,075
Accrued payroll liabilities	(60,551)	(37,308)
Deferred compensation	(58,604)	20,255
Deferred revenue	33,221	(112,614)
	<u>(347,575)</u>	<u>642,266</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	596,628	847,418
Purchases of investments	(900,260)	(853,961)
Purchases of property and equipment	(53,377)	(36,045)
	<u>(357,009)</u>	<u>(42,588)</u>
NET CASH USED IN INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(704,584)	599,678
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,632,862</u>	<u>1,033,184</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 928,278</u>	<u>\$ 1,632,862</u>
SUPPLEMENTAL DISCLOSURE		
Income taxes paid	<u>\$ -</u>	<u>\$ 72,840</u>

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

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

1. Organization and Summary of Significant Accounting Policies

Organization

The Society of American Military Engineers (SAME) was founded in 1920 and incorporated in Washington, D.C. Its mission is to provide education and support to the engineering components of the military and uniformed services, and other federal, state and local government agencies responsible for the nation's infrastructure; and to advance the partnership between government and the architecture, engineering and construction industry in the interest of national security.

Basis of Accounting

The financial statements of SAME are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues and expenses are recognized and recorded when earned or incurred.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market accounts. All highly liquid debt instruments with initial maturities of three months or less are considered cash equivalents.

Accounts Receivable

Accounts receivable are stated at the net realizable value based on management's expectation of collection. SAME uses the allowance method to record potentially uncollectible accounts receivable based on its assessment of the current status of individual accounts.

Investments

Investments consist of equities, corporate bonds, fixed-income mutual funds, certificates of deposit and government obligations. These investments are recorded in the accompanying statements of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For disclosure of the inputs used to measure fair value and related valuation techniques, see Note 3. Realized and unrealized gains and losses are included in the changes in net assets in the accompanying statements of activities.

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability.

SOCIETY OF AMERICAN MILITARY ENGINEERS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of December 31, 2015 and 2014, only SAME's investments, as described in Note 3, were measured at fair value on a recurring basis.

Property and Equipment and Related Depreciation and Amortization

Property and equipment in excess of \$1,000 is capitalized and recorded at cost. Depreciation on furniture and equipment is provided for on a straight-line basis over the estimated useful lives of the assets, which range from five to seven years. Buildings and improvements are depreciated on a straight-line basis over twenty-five years. Software is recorded at cost and is amortized using the straight-line method over five years. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support, or expenses, in the accompanying statements of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Classification of Net Assets

The net assets of SAME are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of SAME's operations, as well as its internally designated funds.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.
- Permanently restricted net assets represent gifts requiring that the principal be invested in perpetuity and that only the income be expended as designated by the donor.

Continued

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

SAME recognizes membership dues during the period the membership covers. Dues received in advance are recorded as deferred revenue and recognized over the membership period. Revenue from conferences, advertising and other activities is recognized when it is earned. Deferred revenue represents unearned funds collected in advance which are to be recognized in the future period when they are earned.

Contributions are recognized at the earlier of when they are received or when the donor makes a promise to give to SAME that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All other net assets, including board-designated or appropriated amounts, are reported as part of the unrestricted class.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. SAME allocates indirect costs based on the percentage of salary expense related to each program and supporting service. Utilities, general insurance, and repairs and maintenance are allocated to various programs based on the percentage of staff per department. Postage, computer and credit card costs are allocated to various programs and supporting services based on modified total direct costs. Accordingly, certain costs have been allocated proportionately among the programs and supporting services to which they relate.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

Investments consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 2,378,478	\$ 2,331,737
Corporate bonds	1,492,614	1,148,723
Common stocks	948,248	890,750
Certificates of deposit	381,000	531,000
Preferred stocks	105,130	126,527
Government obligations	<u>10,227</u>	<u>287,854</u>
Total Investments	<u>\$ 5,315,697</u>	<u>\$ 5,316,591</u>

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

2. Investments (continued)

Investments held for deferred compensation consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 55,150	\$ 3,223
Equities – common stocks	-	102,964
Exchange-traded funds	<u>-</u>	<u>7,567</u>
Total Investments Held for Deferred Compensation	<u>\$ 55,150</u>	<u>\$ 113,754</u>

Investment income (loss) is summarized as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 264,760	\$ 242,178
Realized gains	297	64,938
Unrealized gains (losses)	<u>(363,427)</u>	<u>54,028</u>
Total Investment Income (Loss)	<u>\$ (98,370)</u>	<u>\$ 361,144</u>

3. Fair Value Measurement

The following table summarizes SAME's investments measured at fair value on a recurring basis as of December 31, 2015:

	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds:				
Fixed-income	\$ 926,486	\$ 926,486	\$ -	\$ -
Large cap	916,238	916,238	-	-
Growth	351,553	351,553	-	-
International	68,472	68,472	-	-
Mid/small cap	58,344	58,344	-	-
Convertibles	29,095	29,095	-	-
Real estate	<u>28,290</u>	<u>28,290</u>	<u>-</u>	<u>-</u>
Total Mutual Funds	<u>2,378,478</u>	<u>2,378,478</u>	<u>-</u>	<u>-</u>
Corporate bonds	<u>1,492,614</u>	<u>-</u>	<u>1,492,614</u>	<u>-</u>

Continued

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

3. Fair Value Measurement (continued)

<i>(Continued)</i>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Common stocks:				
Financial	\$ 165,573	\$ 165,573	\$ -	\$ -
Industrial	159,751	159,751	-	-
Information technology	158,568	158,568	-	-
Consumer discretionary	134,202	134,202	-	-
Consumer staples	109,474	109,474	-	-
Health care	97,964	97,964	-	-
Energy	61,018	61,018	-	-
Telecommunication services	44,733	44,733	-	-
Materials	<u>16,965</u>	<u>16,965</u>	<u>-</u>	<u>-</u>
Total Common Stocks	<u>948,248</u>	<u>948,248</u>	<u>-</u>	<u>-</u>
Certificates of deposit	381,000	-	381,000	-
Preferred stocks	105,130	105,130	-	-
Government obligations	<u>10,227</u>	<u>-</u>	<u>10,227</u>	<u>-</u>
Total Investments, at Fair Value	<u>\$ 5,315,697</u>	<u>\$ 3,431,856</u>	<u>\$ 1,883,841</u>	<u>\$ -</u>
Investments held for deferred compensation:				
Money market funds	<u>\$ 55,150</u>			

Continued

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

3. Fair Value Measurement (continued)

The following table summarizes SAME's investments measured at fair value on a recurring basis as of December 31, 2014:

	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds:				
Fixed-income	\$ 897,733	\$ 897,733	\$ -	\$ -
Large cap	953,702	953,702	-	-
Growth	295,416	295,416	-	-
International	64,893	64,893	-	-
Mid/small cap	62,084	62,084	-	-
Convertibles	30,728	30,728	-	-
Real estate	<u>27,181</u>	<u>27,181</u>	-	-
Total Mutual Funds	<u>2,331,737</u>	<u>2,331,737</u>	<u>-</u>	<u>-</u>
Corporate bonds	<u>1,148,723</u>	<u>-</u>	<u>1,148,723</u>	<u>-</u>
Common stocks:				
Financial	189,813	189,813	-	-
Industrial	58,369	58,369	-	-
Information technology	156,483	156,483	-	-
Consumer discretionary	124,986	124,986	-	-
Consumer staples	102,923	102,923	-	-
Health care	99,689	99,689	-	-
Energy	75,655	75,655	-	-
Telecommunication services	38,629	38,629	-	-
Materials	<u>44,203</u>	<u>44,203</u>	-	-
Total Common Stocks	<u>890,750</u>	<u>890,750</u>	<u>-</u>	<u>-</u>
Certificates of deposit	531,000	-	531,000	-
Preferred stocks	126,527	126,527	-	-
Government obligations	<u>287,854</u>	<u>-</u>	<u>287,854</u>	<u>-</u>
Total Investments, at Fair Value	<u>\$ 5,316,591</u>	<u>\$ 3,349,014</u>	<u>\$ 1,967,577</u>	<u>\$ -</u>

Continued

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

3. Fair Value Measurement (continued)

<i>(Continued)</i>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments held for deferred compensation:				
Equities – common stocks	\$ 102,964	\$ 102,964	\$ -	\$ -
Exchange-traded funds	<u>7,567</u>	<u>7,567</u>	<u>-</u>	<u>-</u>
Total Investments Held for Deferred Compensation, at Fair Value	110,531	<u>\$ 110,531</u>	<u>\$ -</u>	<u>\$ -</u>
Money market funds	<u>3,223</u>			
Total Investments Held for Deferred Compensation	<u>\$ 113,754</u>			

SAME uses the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Mutual funds, common and preferred stocks, and exchange-traded funds – Valued using quoted market prices in active markets.

Corporate bonds and government obligations – Valued based on current yields, the security's terms and conditions, and market activity. Information used includes market sources, credit information, observed market movement and sector news.

Certificates of deposit – Certificates of deposit have original maturity dates in excess of 90 days. Certificates of deposit are stated at their principal value, which is classified within Level 2 of the valuation hierarchy.

SOCIETY OF AMERICAN MILITARY ENGINEERS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

4. Property and Equipment and Accumulated Depreciation and Amortization

SAME's property and equipment consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Building and improvements	\$ 1,210,647	\$ 1,205,647
Furniture and equipment	467,805	463,189
Association Management Software	328,222	284,461
Land	219,970	219,970
Total Property and Equipment	2,226,644	2,173,267
Less: Accumulated Depreciation and Amortization	(1,317,218)	(1,239,707)
Property and Equipment, Net	\$ 909,426	\$ 933,560

Depreciation and amortization expense totaled \$77,511 and \$80,661, respectively, for the years ended December 31, 2015 and 2014.

5. Commitments, Risks and Contingencies

Operating Lease

SAME leases office equipment under several operating leases. Future minimum lease rental payments required under these leases are as follows:

For the Year Ending December 31,	
2016	\$ 15,570
2017	14,676
2018	11,007
Total	\$ 41,253

Leased equipment expense for the years ended December 31, 2015 and 2014, totaled \$26,283 and \$23,592, respectively.

Contracts

SAME has entered into various agreements with facilities for its future planned conferences. Such agreements generally contain provisions which obligate SAME to book a minimum number of room nights and to spend certain minimums for food and beverages. Should these minimums not be achieved, the agreements obligate SAME to pay liquidated damages. SAME's management does not believe that any of these commitments will result in a loss due to liquidated damages. Accordingly, no amount for this potential liability has been reflected in the accompanying financial statements.

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

5. Commitments, Risks and Contingencies (continued)

Concentration of Credit Risk

SAME's cash is held in accounts at various financial institutions. Amounts held in accounts that exceed the Federal Deposit Insurance Corporation and the National Credit Union Administration (NCUA) insurable limit are uninsured. SAME has never experienced, nor does management anticipate, any losses on its funds. As of December 31, 2015 and 2014, the cash balance exceeding the \$250,000 per depositor per institution FDIC and NCUA limits totaled \$264,245 and \$652,888, respectively.

Employment Agreement

SAME signed an employment agreement with its Executive Director on July 1, 2014. Under the terms of the agreement, if SAME terminates the agreement for reasons other than cause, the Executive Director is entitled to receive 90 days' written notice of the cancellation and full payment of compensation during the notice period. In exchange for a full release of SAME from any further obligations, the Executive Director will also receive severance pay in the amount of two months' salary for each year of employment, up to a maximum of six months' salary.

6. Board-Designated Net Assets

Net assets designated by the Board of Direction represent a portion of unrestricted net assets that have been set aside for specific purposes and consists of cumulative net proceeds from certain SAME events, including the Joint Engineering Training Conference, the Golden Eagle Dinner and other miscellaneous activities. For the years ended December 31, 2015 and 2014, board-designated funds totaled \$611,489 and \$569,612, respectively, to support various projects.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs or purposes:

	<u>2015</u>	<u>2014</u>
Wounded Warriors Fund	\$ 11,299	\$ 735
Education and Mentoring Fund	<u>-</u>	<u>7,661</u>
Total Temporarily Restricted Net Assets	<u>\$ 11,299</u>	<u>\$ 8,396</u>

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

8. Permanently Restricted Net Assets

Permanently restricted net assets represent donor-restricted contributions in which the donor has stipulated that the principal be maintained intact. Investment income from permanently restricted net assets is recorded as temporarily restricted net assets and is used for the specific purposes designated by the donor. Permanently restricted net assets as of December 31, 2015 and 2014, totaled \$274,226 representing the Education and Mentoring Fund (the E&M Fund).

9. Endowment Fund

Endowment Fund

SAME's permanently restricted net assets for the E&M Fund meet the definition of endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions or by the designation of the Board of Direction. The Board of Direction of SAME requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

SAME classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by SAME in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Interpretation of Relevant Law

In accordance with the District of Columbia's UPMIFA unless there are explicit donor instructions, this law gives the boards of nonprofit organizations the flexibility to determine the appropriate use of endowment principal and related investment income. UPMIFA suggests boards should consider the following factors in determining a prudent use of investment income and endowment principal:

- 1) The duration and preservation of the fund;
- 2) The purpose of the organization and the donor-restricted endowment fund;
- 3) General economic conditions;
- 4) The possible effect of inflation and deflation;
- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources of the organization; and
- 7) The investment policies of the organization.

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

9. Endowment Fund (continued)

Interpretation of Relevant Law (continued)

The changes in net assets of the E&M Fund for the year ended December 31, 2015, were as follows:

	<u>Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 569,612	\$ -	\$ 274,226	\$ 843,838
Contributions and transfers	41,877	-	-	41,877
Investment return:				
Investment income	-	13,790	-	13,790
Net appreciation (realized and unrealized)	-	(18,914)	-	(18,914)
Total Investment Return	-	(5,124)	-	(5,124)
Appropriation of endowment assets for expenditure	-	5,124	-	5,124
Endowment Net Assets, End of Year	<u>\$ 611,489</u>	<u>\$ -</u>	<u>\$ 274,226</u>	<u>\$ 885,715</u>

The changes in net assets of the E&M Fund for the year ended December 31, 2014, were as follows:

	<u>Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 503,652	\$ -	\$ 271,476	\$ 775,128
Contributions and transfers	65,960	-	2,750	68,710
Investment return:				
Investment income	-	7,302	-	7,302
Net appreciation (realized and unrealized)	-	5,084	-	5,084
Total Investment Return	-	12,386	-	12,386
Appropriation of endowment assets for expenditure	-	(12,386)	-	(12,386)
Endowment Net Assets, End of Year	<u>\$ 569,612</u>	<u>\$ -</u>	<u>\$ 274,226</u>	<u>\$ 843,838</u>

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

9. Endowment Fund (continued)

Investment Objectives and Risk Parameters

Assets are invested conservatively in certificates of deposit and funds involved in a managed portfolio with investment grade corporate bonds and stocks, with an emphasis on preserving capital.

Return Objectives and Spending Policy

SAME has approved investment and spending policies for the endowment portion of the E&M Fund that attempt to provide a predictable stream of funding to the program supported by its endowment, while seeking to maintain the purchasing power of the endowment assets over the long term.

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires SAME to retain as a fund of perpetual duration. There were no fund deficiencies as of December 31, 2015 and 2014.

10. Related Party Transactions

During the year ended December 31 2014, SAME paid \$4,155 to a local design company for goods and services provided in connection with the Century House Renovation Project. No amounts were paid for the year ended December 31, 2015. The owner of the design company is a relative of the former Executive Director of SAME, who retired during 2014. There were no payments due to this company as of December 31, 2015 and 2014.

11. Retirement Plan

SAME has an established a 401(k) plan for its employees. Employees may elect to make voluntary pretax contributions under a salary deferral agreement. Employees are immediately vested in all contributions made by SAME. Employer contributions to the plan for the years ended December 31, 2015 and 2014, were \$67,437 and \$107,805, respectively.

SAME maintains a deferred compensation plan under Internal Revenue Service (IRS) Code Section 457(b) for its highly compensated employees. SAME's matching contributions to the plan for the year ended December 31, 2014, totaled \$6,723. There were no matching contributions to the plan for the year ended December 31, 2015. SAME has set aside funds to meet this obligation.

SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

12. Income Taxes

SAME qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. A provision for income taxes is required for the years ended December 31, 2015 and 2014, as SAME had unrelated business income.

The components of the provision for income taxes for the years ended December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Federal	\$ 9,250	\$ 29,862
State	<u>3,637</u>	<u>7,626</u>
Total	<u>\$ 12,887</u>	<u>\$ 37,488</u>

SAME performed an evaluation of uncertain tax positions for the years ended December 31, 2015 and 2014, and determined that there are no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2015, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which SAME files tax returns. SAME is not currently under audit by the IRS for the years ended December 31, 2015 and 2014. It is SAME's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2015 and 2014, SAME had no accruals for interest and/or penalties.

13. Subsequent Events

In preparing these financial statements, SAME has evaluated events and transactions for potential recognition or disclosure through April 18, 2016, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

SOCIETY OF AMERICAN MILITARY ENGINEERS
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015
(With Summarized Financial Information for the year ended December 31, 2014)

	Program Services					Supporting Services				2015 Total	2014 Total
	Conferences and Meetings	Post Operations	Society Publications	Continuing Education	Membership Activities	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and wages	\$ 432,606	\$ 181,055	\$ 289,690	\$ 325,556	\$ 199,072	\$ 1,427,979	\$ 366,397	\$ 1,126	\$ 367,523	\$ 1,795,502	\$ 1,908,491
Payroll tax expense	31,583	13,669	21,870	24,578	15,029	106,729	27,661	85	27,746	134,475	141,916
Retirement	15,837	6,855	10,968	12,325	7,537	53,522	13,872	43	13,915	67,437	114,528
Other employee benefits	56,489	24,448	39,116	43,960	26,881	190,894	49,475	152	49,627	240,521	233,166
Subtotal	536,515	226,027	361,644	406,419	248,519	1,779,124	457,405	1,406	458,811	2,237,935	2,398,101
Professional fees	94,795	29,422	34,711	48,361	32,212	239,501	34,071	105	34,176	273,677	220,046
Dues to Posts	-	251,662	-	-	-	251,662	-	-	-	251,662	258,113
Meeting expense:											
Facilities rental	4,985	73,597	-	2,833	-	81,415	-	-	-	81,415	86,150
Catering	891,665	72,951	-	3,374	-	967,990	-	-	-	967,990	1,062,719
Audio-visual	267,687	13,825	-	826	-	282,338	-	-	-	282,338	215,083
Exhibit costs	177,337	5,671	-	14	-	183,022	-	-	-	183,022	158,718
Revenue sharing	62,000	-	-	-	-	62,000	-	-	-	62,000	110,000
Other meeting expense	286,368	14,673	-	2,778	-	303,819	-	-	-	303,819	309,062
Travel	82,267	125,348	639	5,722	438	214,414	811	-	811	215,225	135,354
Production and printing	22,463	1,074	115,798	549	219	140,103	403	-	403	140,506	168,902
Advertising commissions and other	31,423	-	39,721	-	3,129	74,273	-	-	-	74,273	35,329
Postage and delivery	5,871	2,204	39,655	3,203	1,959	52,892	3,615	-	3,615	56,507	71,862
Awards	65,444	43,469	1,990	2,386	1,367	114,656	2,525	-	2,525	117,181	120,152
Cost of promotion items	-	28,016	-	-	-	28,016	-	-	-	28,016	22,415
Repairs and maintenance	13,464	5,827	9,323	10,477	6,407	45,498	11,831	-	11,831	57,329	86,770
Utilities	9,133	5,203	6,278	19,919	4,314	44,847	7,965	-	7,965	52,812	57,065
Computer expense	10,587	4,582	30,837	8,924	5,038	59,968	9,300	-	9,300	69,268	73,774
Office supplies and expense	15,933	5,081	8,018	9,010	5,510	43,552	10,172	-	10,172	53,724	52,020
Insurance – general	16,609	4,445	5,656	6,356	3,887	36,953	7,175	-	7,175	44,128	41,487
Credit card and bank fees	16,579	7,175	11,481	12,902	7,889	56,026	14,565	-	14,565	70,591	73,488
Taxes and licenses	20,003	3,080	4,928	5,538	3,386	36,935	6,252	-	6,252	43,187	73,585
Depreciation and amortization	18,204	7,879	12,606	14,167	8,663	61,519	15,992	-	15,992	77,511	80,661
Miscellaneous	-	-	-	-	-	-	-	-	-	-	2,201
TOTAL EXPENSES	\$ 2,649,332	\$ 931,211	\$ 683,285	\$ 563,758	\$ 332,937	\$ 5,160,523	\$ 582,082	\$ 1,511	\$ 583,593	\$ 5,744,116	\$ 5,913,057