



Financial Statements and Supplemental Information

For the Years Ended December 31, 2016 and 2015



**and
Report Thereon**



SOCIETY OF AMERICAN MILITARY ENGINEERS

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

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, 2016 and 2015, 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 the Society of American Military Engineers as of December 31, 2016 and 2015, 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 18 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 20, 2017

SOCIETY OF AMERICAN MILITARY ENGINEERS

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,015,579	\$ 928,278
Accounts receivable, net of allowance for uncollectible accounts of \$3,000 in both 2016 and 2015	71,035	116,910
Prepaid expenses and deposits	165,005	377,005
Investments (Notes 2 and 3)	5,717,745	5,315,697
Investments held for deferred compensation (Note 3)	-	55,150
Property and equipment, net (Note 4)	<u>870,874</u>	<u>909,426</u>
TOTAL ASSETS	<u><u>\$ 7,840,238</u></u>	<u><u>\$ 7,702,466</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 112,984	\$ 204,703
Accrued payroll liabilities	133,200	92,365
Deferred compensation	-	55,150
Deferred revenue:		
Membership	953,229	950,572
Events	162,521	196,554
Sponsorships	75,910	157,500
Advertising	<u>34,139</u>	<u>18,496</u>
TOTAL LIABILITIES	<u>1,471,983</u>	<u>1,675,340</u>
Net Assets		
Unrestricted		
Undesignated	5,430,085	5,130,112
Board-designated (Note 6)	<u>656,503</u>	<u>611,489</u>
Total Unrestricted Net Assets	6,086,588	5,741,601
Temporarily restricted (Note 7)	7,441	11,299
Permanently restricted (Notes 8 and 9)	<u>274,226</u>	<u>274,226</u>
TOTAL NET ASSETS	<u>6,368,255</u>	<u>6,027,126</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,840,238</u></u>	<u><u>\$ 7,702,466</u></u>

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, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Conference registrations and sponsorships	\$ 3,447,045	\$ -	\$ -	\$ 3,447,045	\$ 3,003,365	\$ -	\$ -	\$ 3,003,365
Dues	1,997,887	-	-	1,997,887	2,042,500	-	-	2,042,500
Investments held for deferred compensation (617,758	-	-	617,758	555,532	-	-	555,532
Investment income (loss) (Note 2)	438,171	22,074	-	460,245	(93,246)	(5,124)	-	(98,370)
Continuing education	56,562	-	-	56,562	78,594	-	-	78,594
Donations	-	27,739	-	27,739	-	26,059	-	26,059
Other income	21,626	-	-	21,626	50,862	-	-	50,862
Net assets released from restrictions:								
Satisfaction of program restrictions	53,671	(53,671)	-	-	18,032	(18,032)	-	-
TOTAL REVENUE								
Deferred compensation	6,632,720	(3,858)	-	6,628,862	5,655,639	2,903	-	5,658,542
EXPENSES								
Program Services:								
Conferences and meetings	3,032,615	-	-	3,032,615	2,649,332	-	-	2,649,332
Post operations	1,010,061	-	-	1,010,061	931,211	-	-	931,211
Society publications	750,486	-	-	750,486	683,285	-	-	683,285
Membership activities	514,746	-	-	514,746	332,937	-	-	332,937
Continuing education	370,085	-	-	370,085	563,758	-	-	563,758
Total Program Services	5,677,993	-	-	5,677,993	5,160,523	-	-	5,160,523
Supporting Services:								
Management and general	609,740	-	-	609,740	582,082	-	-	582,082
Fundraising	-	-	-	-	1,511	-	-	1,511
Total Supporting Services	609,740	-	-	609,740	583,593	-	-	583,593
TOTAL EXPENSES	6,287,733	-	-	6,287,733	5,744,116	-	-	5,744,116
CHANGE IN NET ASSETS	344,987	(3,858)	-	341,129	(88,477)	2,903	-	(85,574)
NET ASSETS, BEGINNING OF YEAR	5,741,601	11,299	274,226	6,027,126	5,830,078	8,396	274,226	6,112,700
NET ASSETS, END OF YEAR	\$ 6,086,588	\$ 7,441	\$ 274,226	\$ 6,368,255	\$ 5,741,601	\$ 11,299	\$ 274,226	\$ 6,027,126

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, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 341,129	\$ (85,574)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	81,186	77,511
Inv Loss on disposal of property and equipment	4,064	-
Net realized and unrealized losses (gains) on investments	(300,788)	363,130
Changes in assets and liabilities:		
Accounts receivable	45,875	(51,158)
Prepaid expenses and deposits	212,000	(138,817)
Accounts payable and accrued expenses	(91,719)	(426,733)
Accrued payroll liabilities	40,835	(60,551)
Deferred compensation	(55,150)	(58,604)
Deferred revenue	(97,323)	33,221
Deferred compensation		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	180,109	(347,575)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	703,334	596,628
Purchases of investments	(749,444)	(900,260)
Purchases of property and equipment	(46,698)	(53,377)
NET CASH USED IN INVESTING ACTIVITIES	(92,808)	(357,009)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	87,301	(704,584)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	928,278	1,632,862
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,015,579	\$ 928,278
SUPPLEMENTAL DISCLOSURE		
Income taxes paid	\$ -	\$ -

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

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2016 and 2015

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.

The Society of American Military Engineers Foundation (the Foundation) was founded in 2016 and incorporated in Washington, D.C. The Foundation provides a secure and beneficial repository for charitable contributions and other bequeaths from members of SAME and the public at large, in furtherance of the purposes and objectives of SAME. The Foundation's purpose is to foster engineering leadership for the nation, specifically focusing on supporting military engineers; science, technology, engineering and mathematics (STEM) programs; and national security. The Foundation had no activity for the year ended December 31, 2016. Due to the lack of activity during the year, the accounts and transactions of the Foundation have not been consolidated as of December 31, 2016, and for the year then ended.

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. Cash held in investment accounts is excluded, as it is considered to be held for long-term purposes.

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 mutual funds, corporate bonds, common stock, cash and cash equivalents, certificates of deposit, preferred stock, 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 change in net assets in the accompanying statements of activities.

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2016 and 2015

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

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 measurement 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 measurement, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability.

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, 2016 and 2015, 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 are capitalized and recorded at cost. Building and improvements are depreciated on a straight-line basis over twenty-five years. 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. 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.

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2016 and 2015

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

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.

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 conference registrations and sponsorships, 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 proportional percentage of salary expense related to each program and supporting service. Accordingly, certain costs have been allocated 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.

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

2. Investments

Investments consisted of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 2,564,419	\$ 2,378,478
Corporate bonds	1,454,570	1,492,614
Common stock	1,042,087	948,248
Cash and cash equivalents	311,682	-
Certificates of deposit	226,000	381,000
Preferred stock	111,241	105,130
Government obligations	<u>7,746</u>	<u>10,227</u>
Total Investments	<u>\$ 5,717,745</u>	<u>\$ 5,315,697</u>

Investments held for deferred compensation consisted of \$55,150 in money market funds as of December 31, 2015. As of December 31, 2016, the investments held for deferred compensation had been liquidated.

Investment income (loss) is summarized as follows for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unrealized gains (losses)	\$ 230,575	\$ (363,427)
Interest and dividends	159,457	264,760
Realized gains	<u>70,213</u>	<u>297</u>
Total Investment Income (Loss)	<u>\$ 460,245</u>	<u>\$ (98,370)</u>

Investment income for the year includes interest and dividends related to cash and cash equivalents. The portion related to cash and cash equivalents is \$14,906 and \$16,606, for the years ended December 31, 2016, and December 31, 2015, respectively.

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

3. Fair Value Measurement

The following table summarizes SAME's investments measured at fair value on a recurring basis as of December 31, 2016:

	<u>Fair Value</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:				
Mutual funds:				
Domestic	\$ 1,491,319	\$ 1,491,319	\$ -	\$ -
Fixed income	944,889	944,889	-	-
International	66,097	66,097	-	-
Convertibles	32,106	32,106	-	-
Real estate	30,008	30,008	-	-
Total Mutual Funds	2,564,419	2,564,419	-	-
Corporate bonds	1,454,570	-	1,454,570	-
Common stock	1,042,087	1,042,087	-	-
Certificates of deposit	226,000	-	226,000	-
Preferred stock	111,241	111,241	-	-
Government obligations	7,746	-	7,746	-
Total Investments in the Fair Value Hierarchy	5,406,063	<u>\$ 3,717,747</u>	<u>\$ 1,688,316</u>	<u>\$ -</u>
Cash and cash equivalents	311,682			
Total Investments	<u>\$ 5,717,745</u>			

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

3. Fair Value Measurement (continued)

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

	<u>Fair Value</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:				
Mutual funds:				
Domestic	\$ 1,326,135	\$ 1,326,135	\$ -	\$ -
Fixed income	926,486	926,486	-	-
International	68,472	68,472	-	-
Convertibles	29,095	29,095	-	-
Real estate	<u>28,290</u>	<u>28,290</u>	-	-
Total Mutual Funds	2,378,478	2,378,478	-	-
Corporate bonds	1,492,614	-	1,492,614	-
Common stock	948,248	948,248	-	-
Certificates of deposit	381,000	-	381,000	-
Preferred stock	105,130	105,130	-	-
Government obligations	<u>10,227</u>	<u>-</u>	<u>10,227</u>	<u>-</u>
Total Investments, in the Fair Value Hierarchy	<u>\$ 5,315,697</u>	<u>\$ 3,431,856</u>	<u>\$ 1,883,841</u>	<u>\$ -</u>
Investments held for deferred compensation:				
Cash and cash equivalents	<u>\$ 55,150</u>			

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

Mutual funds and common and preferred stock – 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.

Continued

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

4. Property and Equipment and Accumulated Depreciation and Amortization

SAME's property and equipment consisted of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 1,217,000	\$ 1,210,647
Furniture and equipment	285,336	467,805
Association Management Software	358,079	328,222
Land	<u>219,970</u>	<u>219,970</u>
Total Property and Equipment	2,080,385	2,226,644
Less: Accumulated Depreciation and Amortization	<u>(1,209,511)</u>	<u>(1,317,218)</u>
Property and Equipment, Net	<u>\$ 870,874</u>	<u>\$ 909,426</u>

Depreciation and amortization expense totaled \$81,186 and \$77,511, respectively, for the years ended December 31, 2016 and 2015.

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:

<u>For the Year Ending</u> <u>December 31,</u>	
2017	\$ 16,342
2018	<u>11,007</u>
Total	<u>\$ 27,349</u>

Leased equipment expense for the years ended December 31, 2016 and 2015, totaled \$31,538 and \$26,283, 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 met, 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.

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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 National Credit Union Administration (NCUA) insurable limits are uninsured. SAME has never experienced, nor does management anticipate, any losses on its funds. As of December 31, 2016 and 2015, the cash balance exceeding the \$250,000 per depositor per institution FDIC and NCUA limits was approximately \$215,000 and \$264,000, 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 consist 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, 2016 and 2015, board-designated funds to support various projects totaled \$656,503 and \$611,489, respectively.

7. Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Education and Mentoring Fund	\$ 7,441	\$ -
Wounded Warriors Fund	<u>-</u>	<u>11,299</u>
Total Temporarily Restricted Net Assets	<u>\$ 7,441</u>	<u>\$ 11,299</u>

8. Permanently Restricted Net Assets

Permanently restricted net assets represent donor-restricted contributions of 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, 2016 and 2015, totaled \$274,226 representing the Education and Mentoring Fund (the E&M Fund).

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

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, the boards of nonprofit organizations have the flexibility to determine the appropriate use of endowment principal and related investment income. UPMIFA suggests that boards consider the following factors in determining 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.

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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, 2016, were as follows:

	<u>Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 611,489	\$ -	\$ 274,226	\$ 885,715
Contributions and transfers	<u>53,577</u>	<u>-</u>	<u>-</u>	<u>53,577</u>
Investment return:				
Investment income	-	7,648	-	7,648
Net appreciation (realized and unrealized)	<u>-</u>	<u>14,426</u>	<u>-</u>	<u>14,426</u>
Total Investment Return	<u>-</u>	<u>22,074</u>	<u>-</u>	<u>22,074</u>
Appropriation of endowment assets for expenditure	<u>(8,563)</u>	<u>(22,074)</u>	<u>-</u>	<u>(30,637)</u>
Endowment Net Assets, End of Year	<u>\$ 656,503</u>	<u>\$ -</u>	<u>\$ 274,226</u>	<u>\$ 930,729</u>

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	<u>41,877</u>	<u>-</u>	<u>-</u>	<u>41,877</u>
Investment return:				
Investment income	-	13,790	-	13,790
Net appreciation (realized and unrealized)	<u>-</u>	<u>(18,914)</u>	<u>-</u>	<u>(18,914)</u>
Total Investment Return	<u>-</u>	<u>(5,124)</u>	<u>-</u>	<u>(5,124)</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>5,124</u>	<u>-</u>	<u>5,124</u>
Endowment Net Assets, End of Year	<u>\$ 611,489</u>	<u>\$ -</u>	<u>\$ 274,226</u>	<u>\$ 885,715</u>

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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. Annually, the Board of Direction approves the appropriation of endowment funds through the budget process.

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, 2016 and 2015.

10. 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, 2016 and 2015, were \$75,897 and \$67,437, respectively.

11. 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, 2016 and 2015, as SAME had unrelated business income.

The components of the provision for income taxes for the years ended December 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Federal	\$ 34,287	\$ 9,250
State	<u>8,353</u>	<u>3,637</u>
Total	<u>\$ 42,640</u>	<u>\$ 12,887</u>

Continued

THE SOCIETY OF AMERICAN MILITARY ENGINEERS

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

11. Income Taxes (continued)

SAME has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. SAME evaluated its uncertainty in income taxes for the year ended December 31, 2016, and determined that there were 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, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which SAME files tax returns. It is SAME's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of December 31, 2016 and 2015, SAME had no accruals for interest and/or penalties.

12. Reclassifications

Certain 2015 amounts have been reclassified to conform with the 2016 financial statement presentation.

13. Subsequent Events

In preparing these financial statements, SAME has evaluated events and transactions for potential recognition or disclosure through April 20, 2017, 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, 2016
(With Summarized Financial Information for the year ended December 31, 2015)

	Program Services					Supporting Services		2016 Total	2015 Total	
	Conferences and Meetings	Post Operations	Society Publications	Membership Activities	Continuing Education	Total Program Services	Management and General			Total Supporting Services
Salaries and wages	\$ 442,895	\$ 250,472	\$ 288,415	\$ 307,533	\$ 202,133	\$ 1,491,448	\$ 377,734	\$ 377,734	\$ 1,869,182	\$ 1,795,502
Other employee benefits	43,933	25,663	29,550	31,231	20,710	151,087	38,704	38,704	189,791	240,521
Payroll tax expense	31,039	18,131	20,878	22,065	14,632	106,745	27,343	27,343	134,088	134,475
Retirement	17,569	10,263	11,817	12,489	8,282	60,420	15,477	15,477	75,897	67,437
Subtotal	535,436	304,529	350,660	373,318	245,757	1,809,700	459,258	459,258	2,268,958	2,237,935
Meeting expense:										
Catering	1,163,609	81,712	3,318	3,506	5,995	1,258,140	4,345	4,345	1,262,485	967,990
Audio-visual	352,306	5,353	1,232	1,302	1,334	361,527	1,613	1,613	363,140	282,338
Other meeting expense	299,895	22,351	-	-	768	323,014	860	860	323,874	303,819
Exhibit costs	191,836	-	-	-	-	191,836	-	-	191,836	183,022
Facilities rental	(7,602)	92,650	-	-	2,156	87,204	-	-	87,204	81,415
Revenue sharing	33,127	-	-	-	-	33,127	-	-	33,127	62,000
Professional fees	154,210	37,716	32,859	31,095	41,453	297,333	29,054	29,054	326,387	273,677
Travel	77,175	125,563	2,122	2,243	10,000	217,103	2,779	2,779	219,882	251,225
Dues to Posts	-	209,752	-	-	-	209,752	-	-	209,752	251,662
Production and printing	23,616	442	167,969	537	356	192,920	666	666	193,586	140,506
Awards	75,671	43,264	8,499	8,983	7,578	143,995	11,132	11,132	155,127	117,181
Credit card and bank fees	22,544	11,842	13,636	14,411	9,556	71,989	17,858	17,858	89,847	70,591
Depreciation and amortization	18,793	10,978	12,641	13,360	8,859	64,631	16,555	16,555	81,186	77,511
Computer expense	12,851	8,109	27,749	9,135	6,058	63,902	11,320	11,320	75,222	63,268
Repairs and maintenance	15,771	9,212	10,608	11,211	7,434	54,236	13,893	13,893	68,129	57,329
Postage and delivery	9,659	4,845	38,558	4,096	2,843	60,001	5,076	5,076	65,077	56,507
Taxes and licenses	9,906	5,786	36,663	7,042	4,670	64,067	8,726	8,726	72,793	43,187
Office supplies and expense	12,588	6,838	7,874	8,322	5,557	41,179	10,311	10,311	51,490	53,724
Advertising commissions and other	6,393	-	25,280	14,752	55	46,480	2,126	2,126	48,606	74,273
Insurance – general	16,574	5,616	5,264	5,563	3,689	36,706	6,894	6,894	43,600	44,128
Utilities	8,257	5,224	5,554	5,870	5,967	30,872	7,274	7,274	38,146	52,812
Cost of promotion items	-	18,279	-	-	-	18,279	-	-	18,279	28,016
TOTAL EXPENSES	\$ 3,032,615	\$ 1,010,061	\$ 750,486	\$ 514,746	\$ 370,085	\$ 5,677,993	\$ 609,740	\$ 609,740	\$ 6,287,733	\$ 5,774,116