

International Association of Business
Communicators and The IABC Foundation

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Executive Board of the International Association of Business Communicators
and the Board of Trustees of The IABC Foundation

We have audited the accompanying consolidated financial statements of the International Association of Business Communicators and The IABC Foundation (non-profit organizations) (collectively, the "Association"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditors' 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 audits 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 auditors' judgment, including the assessment of the risk 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 financial position of the Association as of December 31, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DZH Phillips LLP

San Francisco, California
May 12, 2016

International Association of Business Communicators and The IABC Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

ASSETS

	2015	2014
Cash and cash equivalents	\$ 273,566	\$ 366,530
Accounts receivable - net	92,838	18,754
Prepaid expenses	107,778	89,647
Investments	1,044,142	1,607,427
Intangible assets - net	203,907	326,757
Furniture and equipment - net	45,012	50,047
	<u>1,767,243</u>	<u>2,459,162</u>
Total assets	<u>\$ 1,767,243</u>	<u>\$ 2,459,162</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 219,938	\$ 152,667
Due to affiliated chapters and regions	52,336	51,765
Accrued expenses	72,657	66,751
Note payable - bank	-	150,000
Term note payable	-	224,737
Deferred revenue	1,256,612	1,379,407
Deferred rent	3,262	42,373
	<u>1,604,805</u>	<u>2,067,700</u>
Total liabilities	<u>1,604,805</u>	<u>2,067,700</u>

COMMITMENTS

- -

NET ASSETS

Unrestricted	91,586	320,610
Temporarily restricted	54,852	54,852
Permanently restricted	16,000	16,000
	<u>162,438</u>	<u>391,462</u>
Total net assets	<u>162,438</u>	<u>391,462</u>
Total liabilities and net assets	<u>\$ 1,767,243</u>	<u>\$ 2,459,162</u>

The accompanying notes are an integral part of these statements.

International Association of Business Communicators and The IABC Foundation

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2015 and 2014

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT								
Membership dues and fees	\$ 2,020,726	\$ -	\$ -	\$ 2,020,726	2,451,522	\$ -	\$ -	\$ 2,451,522
Conferences, seminars, and awards	2,163,242	-	-	2,163,242	2,088,847	-	-	2,088,847
Information resources and publications	84,391	-	-	84,391	48,407	-	-	48,407
Investment income (loss)	(9,385)	-	-	(9,385)	62,323	-	-	62,323
Job target advertising	108,313	-	-	108,313	140,063	-	-	140,063
Contributions	470	-	-	470	609	-	-	609
	<u>4,367,757</u>	<u>-</u>	<u>-</u>	<u>4,367,757</u>	<u>4,791,771</u>	<u>-</u>	<u>-</u>	<u>4,791,771</u>
Net assets released from restrictions	-	-	-	-	-	-	-	-
Total revenues and support	<u>4,367,757</u>	<u>-</u>	<u>-</u>	<u>4,367,757</u>	<u>4,791,771</u>	<u>-</u>	<u>-</u>	<u>4,791,771</u>
EXPENSES								
Program services								
Conferences, seminars, and awards	1,302,165	-	-	1,302,165	1,305,447	-	-	1,305,447
Membership	652,914	-	-	652,914	491,858	-	-	491,858
Information resources and publications	319,281	-	-	319,281	504,387	-	-	504,387
Leadership and international development	346,095	-	-	346,095	137,019	-	-	137,019
Accreditation	124,324	-	-	124,324	131,400	-	-	131,400
	<u>2,744,779</u>	<u>-</u>	<u>-</u>	<u>2,744,779</u>	<u>2,570,111</u>	<u>-</u>	<u>-</u>	<u>2,570,111</u>
Total program services	<u>2,744,779</u>	<u>-</u>	<u>-</u>	<u>2,744,779</u>	<u>2,570,111</u>	<u>-</u>	<u>-</u>	<u>2,570,111</u>
General and administrative								
Executive board	1,635,794	-	-	1,635,794	2,108,718	-	-	2,108,718
	<u>216,208</u>	<u>-</u>	<u>-</u>	<u>216,208</u>	<u>401,493</u>	<u>-</u>	<u>-</u>	<u>401,493</u>
Total expenses	<u>4,596,781</u>	<u>-</u>	<u>-</u>	<u>4,596,781</u>	<u>5,080,322</u>	<u>-</u>	<u>-</u>	<u>5,080,322</u>
CHANGE IN NET ASSETS	(229,024)	-	-	(229,024)	(288,551)	-	-	(288,551)
Net assets - beginning of year	<u>320,610</u>	<u>54,852</u>	<u>16,000</u>	<u>391,462</u>	<u>609,161</u>	<u>54,852</u>	<u>16,000</u>	<u>680,013</u>
Net assets - end of year	<u>\$ 91,586</u>	<u>\$ 54,852</u>	<u>\$ 16,000</u>	<u>\$ 162,438</u>	<u>\$ 320,610</u>	<u>\$ 54,852</u>	<u>\$ 16,000</u>	<u>\$ 391,462</u>

The accompanying notes are an integral part of these statements.

International Association of Business Communicators and The IABC Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows provided by (used in) operating activities:		
Change in net assets	\$ (229,024)	\$ (288,551)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	23,646	19,901
Amortization	160,932	72,374
Loss on disposal of asset	-	257,600
Net realized and unrealized losses (gains) on investments	26,811	(35,108)
Changes in operating assets and liabilities:		
Accounts receivable	(74,084)	19,057
Prepaid expenses	(18,131)	50,823
Accounts payable	67,271	25,249
Due to affiliated chapters and regions	571	6,172
Accrued expenses	5,906	12,246
Deferred revenue	(122,795)	(119,957)
Deferred rent	(39,111)	(34,420)
Net cash used in operating activities	<u>(198,008)</u>	<u>(14,614)</u>
Cash flows provided by (used in) investing activities:		
Website design costs	(38,082)	(104,664)
Purchase of furniture and equipment	(18,611)	(9,930)
Proceeds from sale of investments	802,498	1,164,308
Purchase of investments	(266,024)	(691,465)
Net cash provided by investing activities	<u>479,781</u>	<u>358,249</u>
Cash flows provided by (used in) financing activities:		
Payments on line of credit - net	(150,000)	50,000
Payments on term note payable	(224,737)	(69,277)
Net cash used in financing activities	<u>(374,737)</u>	<u>(19,277)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(92,964)	324,358
Cash and cash equivalents - beginning of year	<u>366,530</u>	<u>42,172</u>
Cash and cash equivalents - end of year	<u>\$ 273,566</u>	<u>\$ 366,530</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 3,011</u>	<u>\$ 12,898</u>

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

International Association of Business Communicators (IABC) is a global membership association serving multi-disciplinary communication professionals. Its primary focus is to engage communicators at all stages of their careers by providing information and professional development through annual conferences, seminars, webinars and publications, and to build influence and raise awareness of the value of organizational communication inside and outside of the profession. The IABC Foundation (the “Foundation”) is a non-profit public benefit corporation committed to raising funds for programs that advance business and organizational communication.

A summary of significant accounting policies is as follows:

Principles of consolidation

These financial statements consolidate the statements of IABC and the Foundation, which is wholly-owned by IABC, (collectively, the “Association”). All significant intercompany accounts and transactions have been eliminated in consolidation.

Chapters and regions are separate operating entities and are not controlled by IABC. Therefore, these financial statements do not include the chapters and regions.

Description of net assets

Unrestricted:

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor restriction.

Temporarily restricted:

The portion of net assets for which use by the Association is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association.

Permanently restricted:

The portion of net assets for which use by the Association is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Association.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax exempt status

IABC is a non-profit corporation under Section 501(c)(6) of the Internal Revenue Code and Section 23701(e) of the California Revenue and Taxation Code and is exempt from federal and state income taxes.

The Foundation is a non-profit corporation under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and is exempt from federal and state income taxes.

Each year, management considers whether any material tax position the Association has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Association has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Basis of accounting

The consolidated financial statements have been prepared on the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

Cash and cash equivalents

For purposes of the statement of cash flows, the Association considers all unrestricted, highly liquid investments with an initial maturity of three months or less at the date of acquisition to be cash equivalents. Cash held as part of the investment portfolio is classified as investments.

Concentrations of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk

Accounts receivable

Accounts receivable primarily consist of amounts due for advertising, the Association's on-line job posting database, memberships, and receivables related to sponsorship and ad sales. Management has evaluated the outstanding balances and has provided for an allowance of \$11,029.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments consist of mutual funds carried at fair value based on quoted prices in active markets and certificates of deposit carried at cost plus accrued interest (which approximates fair value).

Fair value measurements

The Association considers the use of market-based information over entity specific information in valuing its marketable securities, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability at the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology – quoted prices (unadjusted) for identical assets or liabilities in active markets
- *Level 2* inputs to the valuation methodology – quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology – unobservable and significant to the fair value measurement.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Furniture and equipment

Furniture and equipment are stated at cost less accumulated depreciation. Maintenance and repairs which do not extend the useful life of the respective assets are expensed as incurred. Depreciation is provided for using the straight-line method over estimated useful lives of 3 to 7 years. Leasehold improvements are amortized over the lesser of the useful life of the asset or the remaining lease term.

Due to affiliated chapters and regions

The Association collects dues on behalf of chapters and regions and remits rebates to the respective chapters/regions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue and revenue recognition

Deferred revenue is recorded when payments are received in advance of the Association's conference, seminars and awards. Membership dues are recognized when received on a straight-line basis over the period of the membership.

Information resources and publication revenue is recognized when items are shipped. Job target advertising is recognized over the advertisement period. Contributions are recognized as revenue when they are received or are unconditionally promised to the Association.

Deferred rent

The Association's office lease agreement provides for rent credits and rent escalations during the lease term. The Association records rent expense on a straight-line basis over the term of the office lease. Accordingly, deferred rent is recorded to the extent that rent expense exceeds actual rent payments.

Advertising costs

The Association expenses advertising costs as they are incurred. For the years ended December 31, 2015 and 2014, advertising costs were \$10,130 and \$10,693 respectively.

Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense allocations

Certain expenses, such as depreciation and amortization and technology costs, are allocated among program services, general administration, executive board and fundraising expenses based on the direct expenses incurred in each category.

Subsequent events

Management has evaluated subsequent events and transactions for potential recognition or disclosure through the date the financial statements were available to be issued, May 12, 2016.

International Association of Business Communicators and The IABC Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE B - INVESTMENTS

At December 31, 2015 and 2014, investments consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 131,628	\$ 96,634
Certificates of deposit	340,287	691,788
Mutual funds	<u>572,227</u>	<u>819,005</u>
	<u>\$ 1,044,142</u>	<u>\$ 1,607,427</u>

Certain certificates of deposit were held as collateral for the Association's term loan and for a line of credit. At December 31, 2015 and 2014 the restricted amounts totaled \$0 and \$382,917, respectively, as the bank loan and line of credit were paid off during the year ended December 31, 2015.

For the years ended December 31, 2015 and 2014, the following schedule summarizes the Association's overall investment return and its classification in the statement of activities:

	<u>2015</u>	<u>2014</u>
Realized gain	\$ 25,798	\$ 171,753
Unrealized loss	(52,609)	(136,645)
Dividends	15,111	23,326
Interest	<u>2,315</u>	<u>3,889</u>
	<u>\$ (9,385)</u>	<u>\$ 62,323</u>

Under the fair value measurement hierarchy, the Association's marketable investments are classified as Level 1, with the exception of certificates of deposit, which are classified as Level 2.

International Association of Business Communicators and The IABC Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE C - FURNITURE AND EQUIPMENT

At December 31, 2015 and 2014, furniture and equipment, stated at cost, consisted of the following:

	<u>2015</u>	<u>2014</u>
Computer equipment	\$ 293,578	\$ 274,967
Equipment	90,997	90,997
Office furniture	171,672	171,672
Leasehold improvements	<u>136,861</u>	<u>136,861</u>
	693,108	674,497
Less: accumulated depreciation and amortization	<u>(648,096)</u>	<u>(624,450)</u>
	<u>\$ 45,012</u>	<u>\$ 50,047</u>

For the years ended December 31, 2015 and 2014, depreciation expense amounted to \$23,646 and \$19,901, respectively.

NOTE D - INTANGIBLE ASSETS

At December 31, 2015, intangible assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Website development	\$ 263,062	\$ 224,980
Software	<u>219,734</u>	<u>219,734</u>
	482,796	444,714
Less: accumulated amortization	<u>(278,889)</u>	<u>(117,957)</u>
	<u>\$ 203,907</u>	<u>\$ 326,757</u>

International Association of Business Communicators and The IABC Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE D - INTANGIBLE ASSETS (continued)

Intangible assets are amortized on a straight-line method over an estimated useful life of three years and amounted to \$160,932 and \$72,374 for the years ended December 31, 2015 and 2014, respectively. Future amortization expense is expected to be as follows:

<u>Year ending December 31,</u>	
2016	\$ 115,349
2017	<u>88,558</u>
	<u>\$ 203,907</u>

NOTE E - DEFERRED REVENUE

At December 31, 2015 and 2014, deferred revenue consisted of the following:

	<u>2015</u>	<u>2014</u>
Dues	1,051,166	1,102,688
Conferences/seminars	150,239	225,603
Sponsorship	44,248	10,049
Gold Quill	275	34,050
Workshops	2,175	-
Other	<u>8,509</u>	<u>7,017</u>
	<u>\$ 1,256,612</u>	<u>\$ 1,379,407</u>

NOTE F - NET ASSETS

At December 31, 2015 and 2014, temporarily restricted net assets are restricted for the following purposes:

	<u>2015</u>	<u>2014</u>
Communication in Corporate Citizenship	\$ 15,003	\$ 15,003
Profile Part II Research Study	22,369	22,369
Sharon Berzok Memorial Lecture	5,759	5,759
Wittmer Memorial Fund	7,766	7,766
Sponsorship	<u>3,955</u>	<u>3,955</u>
	<u>\$ 54,852</u>	<u>\$ 54,852</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE F - NET ASSETS (continued)

The Foundation has permanently restricted net assets of \$16,000 received as part of its Millennium Fund.

The Board of Directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as requiring 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. As a result of this interpretation, the Association classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 Association's endowment funds are held as part of the investments in money market funds. The investment policy of the Association has been to maintain principal in risk-free funds while the Fund achieves the size required to provide meaningful income for Foundation sponsored programs.

The Board of Directors considers the Fund to be permanently restricted with income available to fund projects for the Association. There is no formal spending policy due to the small size of the endowment. All income earned has been spent on research.

NOTE G - NOTE PAYABLE - BANK

The Association had a \$165,000 revolving line of credit with a bank which expired on December 31, 2015, and was not renewed. The note provided for interest at prime plus 1.25%. At December 31, 2014, the outstanding balance was \$150,000, and was paid off during the year ended December 31, 2015.

International Association of Business Communicators and The IABC Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE H - NOTE PAYABLE

The Association borrowed \$350,000 under a bank term note in February 2013. The note was payable in monthly installments of \$6,318 including interest. The note bore interest at 2.5% and was collateralized by a certificate of deposit held by the Association for \$350,000 (refer to Note B). The outstanding balance at December 31, 2014 was \$224,737. This amount was paid off during the year ended December 31, 2015.

NOTE I - COMMITMENTS

Office lease

The Association leases office space under an operating lease expiring in January 2016. In December 2015 the Association entered into a new lease agreement for new office space in San Francisco. The new lease begins in February 2016 and expires in January of 2019. The following are future minimum lease payments required under these leases:

<u>Year ending December 31,</u>	
2016	\$ 111,687
2017	83,517
2018	86,028
2019	7,186
	<u>288,418</u>
	<u>\$ 288,418</u>

The Association subleased part of its office space to multiple subtenants. The sublease agreements expired in January 2016. Sublease income is netted against rental expense, and amounted to \$75,144.

For the years ended December 31, 2015 and 2014, total rent expense, net of sublease income, was \$371,012 and \$402,724, respectively.

Other commitments

The Association has entered into agreements with numerous facilities to hold conferences and training sessions that extend out to June 2018. The agreements provide for cancellation fees, and in some cases a deposit is at risk. As the date of the scheduled event gets closer, the cancellation fees increase. At December 31, 2015, the Association has approximately \$700,000 in financial commitments under these contracts if events are cancelled and rooms remain unbooked. The Association obtains cancellation insurance for the larger events which provides compensation to the Association if cancellation is caused by circumstances (beyond the control of the Association) specifically covered by the insurance policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

NOTE J - RETIREMENT PLAN

The Association has a 401(k) Plan available to employees after three months of service. Eligible employees are permitted to contribute a percentage of gross salary subject to certain Internal Revenue Service limitations, and the Association matches the employee contribution up to 5% of gross salary. For the years ended December 31, 2015 and 2014, contributions by the Association to the Plan were \$39,689 and \$23,007, respectively.

NOTE K - RELATED PARTY TRANSACTIONS

The Association contracted with a company owned by a member to provide IT consulting services for the Association. During the year ended December 31, 2015 and 2014 total payments to this company amounted to \$0 and \$18,031, respectively.