

**AMERICAN INSTITUTE FOR CONSERVATION
OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED DECEMBER 31, 2018

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

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CONSOLIDATED FINANCIAL STATEMENTS

**AMERICAN INSTITUTE FOR CONSERVATION
OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Institute for Conservation of Historic and Artistic Works, Inc. and Affiliate
Washington, D.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the American Institute for Conservation of Historic and Artistic Works, Inc. and its affiliate, the Foundation of the American Institute for Conservation of Historic and Artistic Works, Inc. (collectively referred to as AIC), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Institute for Conservation of Historic and Artistic Works and its affiliate, the Foundation of the American Institute for Conservation of Historic and Artistic Works as of December 31, 2018, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from AIC's 2017 financial statements, which were audited by other auditors and, in their report dated May 17, 2018, they expressed an unmodified opinion on those statements.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position on page I-26, the Consolidating Schedule of Activities on page I-27 and the Consolidating Schedule of Change in Net Assets on page I-28 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The Schedule of Expenditures of Federal Awards on pages I-(29 - 30) as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2019 on our consideration of AIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AIC's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AIC's internal control over financial reporting and compliance.



April 25, 2019

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

ASSETS		<u>2018</u>	<u>2017</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	173,874	\$ 195,519
Short-term investments		1,019,167	1,276,131
Grants and contributions receivable		522,249	668,035
Inventory, net		63,906	86,474
Prepaid expenses		<u>87,870</u>	<u>33,595</u>
Total current assets		<u>1,867,066</u>	<u>2,259,754</u>
PROPERTY AND EQUIPMENT			
Property and equipment, net		<u>27,963</u>	<u>17,991</u>
OTHER ASSETS			
Grants and contributions receivable, net of current portion and discount		148,963	-
Investments		4,476,541	5,445,658
Deposits and other		<u>18,508</u>	<u>28,936</u>
Total other assets		<u>4,644,012</u>	<u>5,474,594</u>
TOTAL ASSETS	\$	<u>6,539,041</u>	\$ <u>7,752,339</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	113,097	\$ 235,315
Deferred revenue		570,094	592,969
Deferred rent		<u>60,595</u>	<u>27,238</u>
Total liabilities		<u>743,786</u>	<u>855,522</u>
NET ASSETS			
Without donor restrictions		996,308	1,200,250
With donor restrictions		<u>4,798,947</u>	<u>5,696,567</u>
Total net assets		<u>5,795,255</u>	<u>6,896,817</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>6,539,041</u>	\$ <u>7,752,339</u>

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 1,129,064	\$ 514,928	\$ 1,643,992	\$ 2,198,298
Annual meeting	473,140	-	473,140	629,734
Investment (loss) income, net	(100,947)	(395,532)	(496,479)	818,803
Publications, advertising and other	150,549	-	150,549	101,177
Membership dues	512,500	-	512,500	508,702
Specialty group revenue	205,705	-	205,705	204,141
Workshop income	92,605	-	92,605	55,597
Net assets released from donor restrictions	<u>1,017,016</u>	<u>(1,017,016)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>3,479,632</u>	<u>(897,620)</u>	<u>2,582,012</u>	<u>4,516,452</u>
EXPENSES				
Program Services:				
Meetings	590,577	-	590,577	616,295
Professional Development	520,982	-	520,982	627,626
Outreach	1,053,438	-	1,053,438	829,597
Publications	397,555	-	397,555	482,517
Emergency Programs	272,148	-	272,148	239,958
Specialty Groups	212,406	-	212,406	217,052
Committees and Other Programs	<u>41,439</u>	<u>-</u>	<u>41,439</u>	<u>52,944</u>
Total program services	<u>3,088,545</u>	<u>-</u>	<u>3,088,545</u>	<u>3,065,989</u>
Supporting Services:				
General and Administrative	332,666	-	332,666	319,290
Membership Maintenance	118,824	-	118,824	127,409
Fundraising	<u>143,539</u>	<u>-</u>	<u>143,539</u>	<u>36,544</u>
Total supporting services	<u>595,029</u>	<u>-</u>	<u>595,029</u>	<u>483,243</u>
Total expenses	<u>3,683,574</u>	<u>-</u>	<u>3,683,574</u>	<u>3,549,232</u>
Change in net assets	(203,942)	(897,620)	(1,101,562)	967,220
Net assets at beginning of year	<u>1,200,250</u>	<u>5,696,567</u>	<u>6,896,817</u>	<u>5,929,597</u>
NET ASSETS AT END OF YEAR	<u>\$ 996,308</u>	<u>\$ 4,798,947</u>	<u>\$ 5,795,255</u>	<u>\$ 6,896,817</u>

**AMERICAN INSTITUTE FOR THE CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

2018

Program Services

	Meetings	Professional Development	Outreach	Publications	Emergency Programs	Specialty Groups	Committees and Other Programs	Total Program Services
Salaries and wages	\$132,770	\$ 64,701	\$ 199,874	\$ 110,513	\$ 76,111	\$ 13,197	\$ 18,582	\$ 615,748
Payroll taxes and benefits	28,366	13,963	42,199	23,368	16,251	2,852	3,908	130,907
Printing and production	6,697	1,010	65	13,184	142	15,942	487	37,527
Professional fees	-	68,530	644,867	134,397	63,181	10,790	-	921,765
Occupancy	-	-	-	-	-	-	-	-
Insurance	1,879	-	-	-	-	-	-	1,879
Depreciation and amortization	-	-	-	-	-	-	-	-
Telecommunications	13,883	5,712	65,318	1,122	2,153	2,385	1,260	91,833
Travel	32,602	38,494	11,939	8,588	63,428	10,045	358	165,454
Postage and shipping	2,783	1,919	31	10,898	575	2,848	32	19,086
Equipment rental and maintenance	-	-	-	-	-	-	-	-
Office supplies and expenses	11,267	7,560	-	14	2,045	-	649	21,535
Dues and subscriptions	2,925	4,900	1,225	-	1,600	-	-	10,650
Conferences and meetings	299,471	20,989	-	1,052	12,859	130,926	8,108	473,405
Cost of sales	-	-	-	5,412	-	16,350	-	21,762
Bank fees	-	-	-	-	-	-	-	-
Scholarships and grants	-	263,433	-	40,000	-	-	-	303,433
Miscellaneous	2,108	636	350	176	34	1,352	-	4,656
Sub-total	534,751	491,847	965,868	348,724	238,379	206,687	33,384	2,819,640
Allocation of overhead	55,826	29,135	87,570	48,831	33,769	5,719	8,055	268,905
TOTAL	\$ 590,577	\$ 520,982	\$ 1,053,438	\$ 397,555	\$ 272,148	\$ 212,406	\$ 41,439	\$ 3,088,545

See accompanying notes to consolidated financial statements.

AMERICAN INSTITUTE FOR THE CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATECONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	2018			2017		
	Supporting Services					
	General and Administrative	Membership Maintenance	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Salaries and wages	\$ 157,285	\$ 69,314	\$ 26,066	\$ 252,665	\$ 868,413	\$ 816,415
Payroll taxes and benefits	40,002	14,656	5,396	60,054	190,961	178,076
Printing and production	1,095	2,112	663	3,870	41,397	45,601
Professional fees	78,322	-	92,125	170,447	1,092,212	859,549
Occupancy	158,745	-	-	158,745	158,745	135,152
Insurance	9,378	-	-	9,378	11,257	11,679
Depreciation and amortization	13,504	-	-	13,504	13,504	24,140
Telecommunications	51,742	339	4,398	56,479	148,312	112,989
Travel	38,772	-	2,754	41,526	206,980	235,733
Postage and shipping	940	1,802	715	3,457	22,543	21,596
Equipment rental and maintenance	13,309	-	-	13,309	13,309	13,175
Office supplies and expenses	5,094	-	-	5,094	26,629	24,343
Dues and subscriptions	7,038	-	490	7,528	18,178	16,755
Conferences and meetings	23,091	-	-	23,091	496,496	573,812
Cost of sales	-	-	-	-	21,762	76,604
Bank fees	41,636	-	-	41,636	41,636	42,003
Scholarships and grants	-	-	-	-	303,433	291,857
Miscellaneous	3,151	-	-	3,151	7,807	69,753
Sub-total	643,104	88,223	132,607	863,934	3,683,574	3,549,232
Allocation of overhead	(310,438)	30,601	10,932	(268,905)	-	-
TOTAL	\$ 332,666	\$ 118,824	\$ 143,539	\$ 595,029	\$ 3,683,574	\$ 3,549,232

See accompanying notes to consolidated financial statements.

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,101,562)	\$ 967,220
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	13,504	24,140
Change in discount on grants and contributions receivable	9,403	(7,692)
Loss on inventory obsolescence	-	50,095
Net realized and unrealized losses (gains) on investments	538,464	(307,263)
(Increase) decrease in:		
Grants and contributions receivable	(12,580)	6,227
Inventory	22,568	(35,532)
Prepaid expenses	(54,275)	6,326
Deposits and other	10,428	-
(Decrease) increase in:		
Accounts payable and accrued expenses	(122,218)	103,433
Deferred revenue	(22,875)	(75,291)
Deferred rent	<u>33,357</u>	<u>10,660</u>
Net cash (used) provided by operating activities	<u>(685,786)</u>	<u>742,323</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(23,476)	(11,548)
Purchases of investments	(496,406)	(3,615,512)
Proceeds from sales of investments	<u>1,184,023</u>	<u>2,598,531</u>
Net cash provided (used) by investing activities	<u>664,141</u>	<u>(1,028,529)</u>
Net decrease in cash and cash equivalents	(21,645)	(286,206)
Cash and cash equivalents at beginning of year	<u>195,519</u>	<u>481,725</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 173,874</u>	<u>\$ 195,519</u>
SUPPLEMENTAL INFORMATION:		
Donated Securities	<u>\$ 25,602</u>	<u>\$ 1,000</u>

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The American Institute for Conservation of Historic and Artistic Works, Inc. (AIC) is a not-for-profit organization, incorporated under the laws of the District of Columbia. AIC is a national membership organization of conservation professionals that advances the practice and promotes the importance of the preservation of cultural property through research, publications and the exchange of knowledge as well as establish and uphold professional standards. Cultural property is material that may be artistic, historic, scientific, religious or social and is an invaluable and irreplaceable legacy that must be preserved for future generations. AIC funds its activities primarily through membership dues, publications, and revenue from its annual meeting.

The Foundation of the American Institute for Conservation of Historic and Artistic Works, Inc. (FAIC) is a nonprofit organization incorporated under the laws of the District of Columbia. FAIC is organized exclusively for education, scientific and charitable purposes, focusing on the importance of the preservation of cultural property. FAIC funds its activities primarily through grants.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, and Subtopic FASB Accounting Standards Codification (ASC) 958-810, *Consolidation*. The ASU was adopted for the year ended December 31, 2018 and applied retrospectively.

The consolidated financial statements include the account balances and transactions of AIC and FAIC. AIC and FAIC (collectively referred to as AIC) have been consolidated due to the essence of common control and economic interest as required under accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with AIC's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Cash and cash equivalents -

AIC considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents, excluding money market funds held by investment managers, which totaled \$112,706 as of December 31, 2018.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, AIC maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Investments -

Investments are recorded at their readily determinable fair value. Included in investment (loss) income, net in the Consolidated Statement of Activities and Change in Net Assets are interest and dividends, realized and unrealized gains and losses, net of external investment advisor fees. Investments acquired by gift are recorded at their fair value at the date of the gift. AIC's policy is to liquidate all gifts of investments as soon as possible after the gift.

The primary objective of AIC's short-term investments is to ensure the ability to meet all expected or unexpected cash flow needs by investing in securities which can be sold readily and efficiently. The primary objective of AIC's long-term investments is to preserve the purchasing power of the principal and to provide long-term operating reserves. AIC classifies investments held as endowments, long-term reserves, and investment securities with a maturity of greater than one year as long-term investments in the consolidated accompanying statement of financial position. All other investments are considered available for current operations and are classified as short-term investments in the consolidated accompanying statement of financial position.

Grants and contributions receivable -

Grants and contributions receivable are recorded at their net realizable value, which approximates fair value. Grants and contributions receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue. All grants and contributions receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment in excess of \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining term of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Depreciation and amortization expense during the year ended December 31, 2018 totaled \$13,504.

Inventory -

Inventory consists of books and other publications held for sale and is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory under FASB ASU 2015-11 *Simplifying the Measurement of Inventory*. AIC assesses inventory obsolescence annually and records a reserve for obsolete inventory when the projected future unit sales of a publication are expected to be less than the inventory held over a period of not less than five years. For the year ended December 31, 2018, the balance in inventory was \$63,906 net of an obsolescence reserve of \$45,976,

AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Deferred revenue -

Deferred revenue consists of member dues and conference and meeting registrations. AIC recognizes member dues on a pro-rata basis over the annual membership period. AIC recognizes conference and meeting revenue when the related event has occurred.

Net asset classification -

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.

Net Assets With Donor Restrictions - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Income taxes -

AIC and FAIC are exempt from Federal income taxes under Sections 501(c)(6) and 501(c)(3) of the Internal Revenue Code (IRC), respectively. Beginning January 1, 2018, they are subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of this tax for the year ended December 31, 2018 totaled \$4,231, and is reflected under payroll taxes and benefits in the accompanying Consolidated Statement of Functional Expenses. FAIC is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2018, AIC has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Grants and contributions -

Grants and contributions received without donor restrictions and with donor restrictions are recorded as revenue in the year notification is received from the donor.

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Grants and contributions (continued) -

Grants and contributions with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as net assets with donor restriction in the accompanying consolidated financial statements.

AIC receives funding under grants and contracts from the United States Government, and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as income without donor restrictions to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants and support receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

Contributed services -

Contributed services consist of consulting and other services used in workshops. Contributed services are recorded at their fair value as of the date of the gift. During the year ended December 31, 2018, the fair value of contributed services received was \$46,754 and is included in grants and contributions in the accompanying Consolidated Statement of Activities and Change in Net Assets.

Use of estimates -

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on a basis of time and effort (such as salaries and benefits) or other reasonable basis.

Risks and uncertainties -

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Fair value measurement -

AIC adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. AIC accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes.

Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of \$1,200,250 are now classified as without donor restrictions. Net assets previously classified as temporarily restricted net assets and permanently restricted net assets in the amount of \$3,012,936 and \$2,683,631, respectively, are now classified as net assets with donor restrictions.

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. AIC has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. AIC has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

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1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

New accounting pronouncements (not yet adopted) (continued) -

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

AIC plans to adopt these new ASUs at the respective required implementation dates.

2. **INVESTMENTS**

Investments consisted of the following at December 31, 2018:

	<u>Fair Value</u>
Mutual funds	\$ 3,227,794
Exchange traded funds	1,826,696
Cash and money market funds	112,706
Certificates of deposit	<u>328,512</u>
	<u>\$ 5,495,708</u>

As of December 31, 2018, investments included \$3,591,340 of accumulated investment earnings, which were restricted by donors related to the endowments.

Included in investment loss, net during the year ended December 31, 2018 are the following:

Interest and dividends	\$ 57,195
Net realized and unrealized losses	(538,464)
External investment advisor fees	<u>(15,210)</u>
TOTAL INVESTMENT LOSS, NET	<u>\$ (496,479)</u>

In accordance with FASB ASC 820, Fair Value Measurement, AIC has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the accompanying Consolidated Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market AIC has the ability to access.

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2. INVESTMENTS (Continued)

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2018. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Cash and money market funds* - Valued at the daily closing price as reported by the fund. The cash and money market fund is an open-end fund that is registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The cash and money market fund is deemed to be actively traded.
- *Mutual and exchange-traded funds* - Valued at the daily closing price as reported by the fund. Mutual and exchange-traded funds held by AIC are open-end funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. Mutual funds held by AIC are deemed to be actively traded.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

The table below summarizes, the investments measured at fair value on a recurring basis, aggregated by the fair value hierarchy level with the measurement were made.

AIC's investments as of December 31, 2018 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2018</u>
Asset Class:				
Mutual funds	\$ 57,900	\$ 3,169,894	\$ -	\$ 3,227,794
Exchange-traded funds	1,826,696	-	-	1,826,696
Cash and money market funds	112,706	-	-	112,706
Certificates of deposit	<u>-</u>	<u>328,512</u>	<u>-</u>	<u>328,512</u>
TOTAL	<u>\$ 1,997,302</u>	<u>\$ 3,498,406</u>	<u>\$ -</u>	<u>\$ 5,495,708</u>

3. GRANTS AND CONTRIBUTIONS RECEIVABLE

As of December 31, 2018, contributors to AIC have made written promises to give totaling \$680,615. Grants due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate ranging from 2.46% to 2.51%.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. GRANTS AND CONTRIBUTIONS RECEIVABLE (Continued)

Grants and contributions are due as follows as of December 31, 2018:

Less than one year	\$ 522,249
One to five years	<u>158,366</u>
Total	680,615
Less: Present value discount	<u>(9,403)</u>
GRANTS AND CONTRIBUTIONS RECEIVABLE, NET	<u>\$ 671,212</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2018:

Furniture and equipment	\$ 137,109
Less: Accumulated depreciation and amortization	<u>(109,146)</u>
PROPERTY AND EQUIPMENT, NET	<u>\$ 27,963</u>

5. BOARD DESIGNATED NET ASSETS

As of December 31, 2018, a portion of the net assets without restrictions have been designated by the Board of Directors for the specialty groups which represent funds available for the use of the ten specialty membership groups of AIC. The funds are increased by specialty group dues revenue, publication sales and other income and decreased by specialty group expenditures. As of December 31, 2018, board designated net assets totaled \$115,185.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Subject to expenditure for specified purpose:	
Professional Development	\$ 728,894
Mellon Comprehensive Organizational Health Initiative	363,739
Kress Conservation Fellowship	6,015
Scholarships	108,573
Getty Latin America programs	75,166
Kress Publication Fellowship	176,795
Cultural Heritage Fund	547,097
Other Programs	9,037
Subject to spending policy and appropriation:	
Endowments	<u>2,783,631</u>
NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 4,798,947</u>

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DECEMBER 31, 2018**

6. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following net assets with donor restrictions were released from donor restrictions during the year ended December 31, 2018 by incurring expenses which satisfied the restricted purposes specified by the donors:

Purpose restrictions satisfied:	
Professional Development	\$ 355,566
Mellon Comprehensive Organizational Health Initiative	236,280
Kress Conservation Fellowship	229,749
Scholarships	34,484
Kress Publication Fellowship	43,038
Outreach/Publications	6,473
Other Programs	<u>111,426</u>
	<u>\$ 1,017,016</u>

7. LEASE COMMITMENTS

In January 2017, AIC entered into a new lease agreement for office space under the terms of a noncancelable lease commencing October 2017. The lease term is eleven years and requires monthly payments of \$11,317, with a 4% fixed annual escalation and pass through of increases in operating costs. The lease provides for abatement of the first month's rent during each of the first six years of the lease.

AIC also leases certain office equipment under the terms of noncancelable operating leases that expire through 2019.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the accompanying Consolidated Statement of Financial Position.

The following is a schedule of the future minimum lease payments:

<u>Year Ending December 31,</u>	
2019	\$ 130,404
2020	135,620
2021	141,045
2022	146,687
2023	166,874
Thereafter	<u>887,731</u>
	<u>\$ 1,608,361</u>

Rent expense during the year ended December 31, 2018 totaled \$158,745, and the deferred rent liability as of December 31, 2018 totaled \$60,595.

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8. RETIREMENT PLAN

AIC maintains a defined contribution pension plan qualified under Section 401(k) of the IRC. All employees who have completed three months of service and have reached twenty-one years of age are eligible to participate in the plan. Under the terms of the plan, eligible employees may make contributions of up to 5% of their compensation, subject to Internal Revenue Service limitations. With the completion of twelve months of service, AIC will match employee contributions at 100% of the participant's contribution up to a maximum of 5% of each participant's annual compensation. Employer contributions vest over five years at a rate of 20% per year of service. Contributions to the plan during the year ended December 31, 2018 totaled \$32,961, and are included in payroll taxes and benefits in the accompanying Consolidated Statement of Functional Expenses.

9. LIQUIDITY

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position were comprised of the following:

Cash and cash equivalents	\$ 173,874
Investments	5,495,708
Grants and contributions receivable	671,212
Less:	
Donor-restricted funds	(4,798,947)
Board-designated funds	<u>(115,185)</u>

FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,426,662</u>
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As part of AIC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. AIC has financial assets available equal to approximately 4.7 months of operating expenses.. In the event of need, the board could also approve use of the board designated funds.

10. CONTINGENCY

FAIC receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2018. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

11. COMMITMENTS

AIC is committed under agreements for conference space through 2021. The total commitments under the agreements are not determinable as they depend upon attendance and other unknown factors. There are cancellation penalties that would be due if the agreements were cancelled prior to the event date.

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11. COMMITMENTS (Continued)

The amount of the cancellation penalties increases through the date of the event. As of December 31, 2018, the aggregate amount of possible liquidated damages was a minimum of approximately \$230,000 to a maximum of approximately \$717,000. It is also the normal practice of AIC to obtain event cancellation insurance.

12. ENDOWMENT

FAIC's endowments consists of five individual donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions.

The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, AIC considers a fund to be underwater if the fair value of the fund is less than the sum the (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. FAIC has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, FAIC considers the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of December 31, 2018:

	Without Donor Restriction	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 2,783,631	\$ 2,783,631
Accumulated investment earnings	-	807,709	807,709
TOTAL ENDOWMENT FUNDS	\$ -	\$ 3,591,340	\$ 3,591,340

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. ENDOWMENT (Continued)

Changes in endowment net assets were as follows during the year ended December 31, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ -	\$ 4,227,614	\$ 4,227,614
Investment return:			
Investment loss, net	-	(395,532)	(395,532)
Contributions	-	100,000	100,000
Appropriation of endowment assets for expenditure	-	(340,742)	(340,742)
ENDOWMENT NET ASSETS, END OF YEAR	\$ -	\$ 3,591,340	\$ 3,591,340

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets without restrictions. As of December 31, 2018, there were no deficiencies of this nature.

Return Objectives and Risk Parameters -

FAIC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested to achieve a reasonable long-term rate of return of CPI plus 5% at a moderate level of risk to enable the preservation of capital, maintenance of the purchasing power of the original endowment gift, and provide current income for programs funded by the endowment assets.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, FAIC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). FAIC invests the endowment assets in mutual funds with a target return of CPI plus 5% per annum and money market funds.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

FAIC 's board of directors have established a spending policy for the use of endowment assets of 5% of the fair value of the assets over a three year average period. In establishing this policy, the organization considered the long-term rate of return objectives of the endowments. Accordingly, over the long-term, the organization expects the current spending policy to permit the preservation of the fair value of the original gift while accumulating capital appreciation to preserve the purchasing power of the endowment assets.

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12. ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued) -

In some years, the actual spending for the purposes of the endowment may fall below the level determined under the spending policy. In these situations, only the amount actually spent is released from net assets with restrictions. Any cumulative excess of the amount determined under the spending policy over actual expenditures may be used in a future year to offset expenses in excess of the amount determined under the spending policy level in those years, subject to approval of the Board of Directors. In addition, the Board of Directors may authorize a special release of accumulated earnings to fund expenditures consistent with the intent of the donor in situations where the spending policy resulted in accumulated investments earnings in excess of the amount needed to maintain the purchasing power of the original endowment.

13. PROGRAMS

Annual Meeting

The AIC annual meeting includes formal presentations, demonstrations, and informal conversations on a variety of conservation topics, inviting discussion of philosophical issues, new techniques and materials, and recent discoveries that have grown out of conservation research. The meeting format encompasses lectures, exhibits of conservation-related products and services, workshops, and tours.

Professional Development and Education

The Foundation of the American Institute for Conservation receives grants from a variety of federal agencies and private foundations. National Endowment for the Humanities (NEH) grants have provided support for professional development workshops and scholarships since 2006. Beginning in 2016, NEH also funded the development of a free, online Life Cycle Analysis (LCA) library and tool for conservation and preservation professionals. Getty Foundation grants have supported distance learning courses and, periodically, a Latin American Scholarship Program, in addition to strategic planning. Samuel H. Kress Foundation grants have supported printing of books, international travel costs for conference speakers, and a publication grant to support completion of manuscripts that has been renewed every three years since 1994. A Kress grant supported a conservation Fellowship program for one-year post-graduate internships in advanced conservation. A late 2017 grant from the Kress supported a leadership session at the 2018 AIC Annual Meeting. Andrew W. Mellon Foundation endowment grants support FAIC's professional development program and a series of collaborative workshops in photograph conservation, and a grant was provided for a five-year initiative to establish a photograph conservation department at the State Hermitage Museum in St. Petersburg, Russia. A late 2017 grant from the Mellon Foundation was awarded to support growth capital. A cooperative agreement with the National Park Service, through the National Center for Preservation Technology and Training, funds preservation technology workshops. A 2015 NEA grant supported a workshop on the care of software-based artworks. The Mellon, Getty, and Kress Foundations have supported a planning project, titled Charting the Digital Landscape of the Conservation Profession, while the Getty Foundation and Institute for Museum and Library Services (IMLS) supported a major strategic planning effort. FAIC also supports professional continuing education and attendance at the AIC annual meeting through scholarships from endowed funds as well as from FAIC board-approved funds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. PROGRAMS (Continued)

Outreach

Outreach to the Public

Public outreach focuses on providing information on conservation to non-conservators, such as those who are interested in conservation as a potential consumer/customer and those interested in preservation and conservation issues. Outreach to promote public understanding of art and historic artifacts conservation and its role in preserving our cultural heritage includes providing information about the care of collections through brochures, PowerPoint presentations, wikis, and information provided on the website. The AIC Find a Conservator resource, located on the AIC website, assists museums, libraries, and the general public in locating and selecting appropriate conservation services. AIC is active on its social media sites, which include Facebook, LinkedIn, Instagram, and Twitter. In addition, specially-trained National Heritage Responders (formerly AIC-CERT members) are available to assist following local or national disasters, and a 24-hours assistance phone line is maintained and manned by volunteer team members.

Outreach to Allied Professionals

AIC works with allied professional organizations on the national, state, and local levels to promote the care of collections through articles, exhibits, pamphlets, lectures, and webinars. AIC is an affiliated member of the American Alliance of Museums (AAM), College Art Association (CAA), and U.S. Committee of the Blue Shield (USCBS). AIC hosts an exhibit booth at professional conferences, such as the Association for Preservation Technology (APT), American Association for State and Local History (AASLH), and AAM and assists its members in presenting AIC panel sessions at a variety of related professional conferences, including AAM and CAA. The AIC website provides allied professionals with information about emergency response efforts, available grants, documents such as *Defining the Conservator: Essential Competencies and Requisite Competencies for Conservation Technicians and Collections Care Specialists*, and other information about conservation and the AIC. The Collections Care Network is charged specifically to provide preventive care programs and resources for allied professionals. In 2014, and again in 2016, FAIC received funding from IMLS to manage the Connecting to Collections Care (C2C Care) Online Community, providing information and resources to the staff of collecting institutions. A cooperative agreement between IMLS and FAIC was awarded in 2016 in support of the Collections Assessment for Preservation (CAP) program, providing building and conservation assessments for small to mid-sized museums. In 2015, FAIC became a member of the Coalition to Advance Learning in Archives, Libraries and Museums.

Publications

AIC provides general and technical information on conservation issues, treatments, research, and organizational matters through the publication and distribution of a scholarly journal, newsletter, directory, and other publications. AIC also disseminates information about AIC and the field of conservation on its website, in wikis, and on its blog and social media sites. FAIC maintains an online resource library and international distribution list for conservation and preservation, Conservation OnLine (CoOL) and its Conservation DistList, as well as the Connecting to Collections Care and Heritage Emergency web resources. AIC and FAIC periodically partner with members or allied organizations to publish books on topics of interest to the field of conservation and preservation.

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13. PROGRAMS (Continued)

Emergency Response

NEH first supported the creation of a specially trained team of emergency responders in 2001 and, since that time, AIC's emergency preparedness and response programming and the response team, the National Heritage Responders, have grown. The Kress Foundation provided emergency response funds in 2005, and IMLS provided grants for additional response training in 2006 and 2010. In 2010, NEH, IMLS, and NEA awarded grants to AIC to support emergency response efforts in Haiti following its devastating earthquake, while in 2013, the Mellon Foundation supported response efforts in New York following Hurricane Sandy. A major expansion of AIC's Emergency Program took place in 2015. The Mellon Foundation provided capacity-building funds in support of emergency preparedness and response. NEH awarded grants in late 2014 and late 2016 for FAIC to administer the Alliance for Response program, a series of forums bringing together cultural heritage and emergency management professionals at the local level to encourage the creation of cooperative disaster networks. NEH also provided support for response efforts for cultural institutions affected by Hurricanes Harvey, Irma, and Maria in 2017, and for Hurricane Florence in 2018. A 2017 U.S. Department of Interior contract supported a tribal risk evaluation and planning program.

Specialty Groups

Conservators specialize in a broad range of materials, as reflected in the activities of AIC specialty groups, to which nearly all members belong. Additionally, about half of AIC's membership have identified themselves as conservators who work privately. A specialty group supporting the needs of private practitioners contributes to the organization. The ten specialty group designations currently maintained by AIC are: Architecture, Book & Paper, Conservators in Private Practice, Electronic Media, Objects, Paintings, Photographic Materials, Research & Technical Studies, Textiles, and Wooden Artifacts. The specialty groups serve the field by facilitating communications among members through online communities and pages on the AIC website, providing a forum for current information at the annual meeting, publishing papers given at the annual meeting, and occasionally publishing books on topics relating to their area of specialty.

Committees and Other Programs

Committees

AIC maintains four standing committees: 1.) The Membership Committee reviews and approves applicants for the Professional Associate and Fellow classes of membership and promotes AIC membership in general. 2.) The Ethics and Standards Committee reviews instances of unethical or questionable conduct in relation to the AIC Code of Ethics, Guidelines for Practice, and the Commentaries to the Guidelines for Practice. These documents set forth the principles that guide conservation professionals and others who are involved in the care of cultural property. 3.) The Appeals Committee hears appeals of all actions of the AIC Board of Directors taken in response to the evidence provided by the Ethics and Standards Committee. 4.) The Nominating Committee presents a slate of candidates for the annual election of Directors and Officers of the AIC.

AIC has additional committees that assist in the ongoing activities of the organization and include: Audit, Awards, Bylaws, Education & Training, Emergency, Financial Advisory, Health & Safety, Program (annual meeting general session program), Publications, and Sustainability.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. PROGRAMS (Continued)

Committees and Other Programs (continued)

Task Forces and Working Groups

The AIC Board of Directors periodically creates a task force or working group to research and make recommendations to the Board regarding particular issues. Task forces and working groups are given charges and a timeframe in which to complete their activities and recommendations.

Networks

On November 4, 2011, the AIC Board of Directors approved a new program or division of AIC by creating the Collection Care Network and approving its charge. The Emerging Conservation Professionals Network, formally treated as a committee, and the Contemporary Art Conservation Network are the other approved AIC networks. Networks address topics that are of interest to any specialty and are designed to augment the work of specialty groups. Any AIC member can be a member of a network. A small additional fee may be charged for network membership.

14. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, AIC has evaluated events and transactions for potential recognition or disclosure through April 25, 2019, the date the consolidated financial statements were issued. Both organizations have changed their names subsequent to year end. The American Institute for Conservation of Historic and Artistic Works, Inc. will be the American Institute of Conservation and the Foundation of the American Institute for Conservation of Historic and Artistic Works, Inc. will be the Foundation for Advancement in Conservation.

SUPPLEMENTAL INFORMATION

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
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**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018**

ASSETS				
	AIC	FAIC	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 137,824	\$ 36,050	\$ -	\$ 173,874
Short-term investments	609,672	409,495	-	1,019,167
Grants and contributions receivable	14,961	507,288	-	522,249
Due from affiliate	515,850	29,413	(545,263)	-
Inventory, net	51,217	12,689	-	63,906
Prepaid expenses	<u>72,995</u>	<u>14,875</u>	<u>-</u>	<u>87,870</u>
Total current assets	<u>1,402,519</u>	<u>1,009,810</u>	<u>(545,263)</u>	<u>1,867,066</u>
PROPERTY AND EQUIPMENT				
Property and equipment, net	<u>16,296</u>	<u>11,667</u>	<u>-</u>	<u>27,963</u>
OTHER ASSETS				
Grants and contributions receivable, net of current portion and discount	-	148,963	-	148,963
Investments	-	4,476,541	-	4,476,541
Deposits and other	<u>17,885</u>	<u>623</u>	<u>-</u>	<u>18,508</u>
Total other assets	<u>17,885</u>	<u>4,626,127</u>	<u>-</u>	<u>4,644,012</u>
TOTAL ASSETS	<u>\$ 1,436,700</u>	<u>\$ 5,647,604</u>	<u>\$ (545,263)</u>	<u>\$ 6,539,041</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 65,154	\$ 47,943	\$ -	\$ 113,097
Due to affiliate	29,413	515,850	(545,263)	-
Deferred revenue	543,208	26,886	-	570,094
Deferred rent	<u>60,595</u>	<u>-</u>	<u>-</u>	<u>60,595</u>
Total liabilities	<u>698,370</u>	<u>590,679</u>	<u>(545,263)</u>	<u>743,786</u>
NET ASSETS				
Without donor restrictions	738,330	257,978	-	996,308
With donor restrictions	<u>-</u>	<u>4,798,947</u>	<u>-</u>	<u>4,798,947</u>
Total net assets	<u>738,330</u>	<u>5,056,925</u>	<u>-</u>	<u>5,795,255</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,436,700</u>	<u>\$ 5,647,604</u>	<u>\$ (545,263)</u>	<u>\$ 6,539,041</u>

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

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

	<u>AIC</u>	<u>FAIC</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS				
Grants and contributions	\$ -	\$ 1,158,014	\$ (28,950)	\$ 1,129,064
Annual meeting	473,140	-	-	473,140
Investment loss, net	(31,107)	(69,840)	-	(100,947)
Publications, advertising and other	109,968	96,827	(56,246)	150,549
Membership dues	512,500	-	-	512,500
Specialty group revenue	205,705	-	-	205,705
Workshop income	35,202	57,403	-	92,605
Net assets released from donor restrictions	<u>-</u>	<u>1,017,016</u>	<u>-</u>	<u>1,017,016</u>
Total revenue and support without donor restrictions	<u>1,305,408</u>	<u>2,259,420</u>	<u>(85,196)</u>	<u>3,479,632</u>
EXPENSES				
Program Services:				
Meetings	590,577	-	-	590,577
Professional Development	-	520,982	-	520,982
Outreach	-	1,053,438	-	1,053,438
Publications	276,908	176,893	(56,246)	397,555
Emergency Programs	-	272,148	-	272,148
Specialty Groups	241,356	-	(28,950)	212,406
Committees and Other Programs	<u>41,439</u>	<u>-</u>	<u>-</u>	<u>41,439</u>
Total program services	<u>1,150,280</u>	<u>2,023,461</u>	<u>(85,196)</u>	<u>3,088,545</u>
Supporting Services:				
Management and General	159,578	173,088	-	332,666
Membership Maintenance	118,824	-	-	118,824
Fundraising	<u>-</u>	<u>143,539</u>	<u>-</u>	<u>143,539</u>
Total supporting services	<u>278,402</u>	<u>316,627</u>	<u>-</u>	<u>595,029</u>
Total expenses	<u>1,428,682</u>	<u>2,340,088</u>	<u>(85,196)</u>	<u>3,683,574</u>
Change in net assets without donor restrictions	<u>(123,274)</u>	<u>(80,668)</u>	<u>-</u>	<u>(203,942)</u>
REVENUE AND SUPPORT WITH DONOR RESTRICTIONS				
Grants and contributions	-	514,928	-	514,928
Investment loss, net	-	(395,532)	-	(395,532)
Net assets released from donor restrictions	<u>-</u>	<u>(1,017,016)</u>	<u>-</u>	<u>(1,017,016)</u>
Change in net assets with donor restrictions	<u>-</u>	<u>(897,620)</u>	<u>-</u>	<u>(897,620)</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ (123,274)</u>	<u>\$ (978,288)</u>	<u>\$ -</u>	<u>\$ (1,101,562)</u>

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**CONSOLIDATING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR DECEMBER 31, 2018**

	<u>AIC</u>	<u>FAIC</u>	<u>Eliminations</u>	<u>Total</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Net assets at beginning of year	\$ 861,604	\$ 338,646	\$ -	\$ 1,200,250
Change in net assets without donor restrictions	<u>(123,274)</u>	<u>(80,668)</u>	<u>-</u>	<u>(203,942)</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	<u>\$ 738,330</u>	<u>\$ 257,978</u>	<u>\$ -</u>	<u>\$ 996,308</u>
NET ASSETS WITH DONOR RESTRICTIONS				
Net assets at beginning of year	\$ -	\$ 5,696,567	\$ -	\$ 5,696,567
Change in net assets with donor restrictions	<u>-</u>	<u>(897,620)</u>	<u>-</u>	<u>(897,620)</u>
NET ASSETS WITH DONOR RESTRICTIONS AT END OF YEAR	<u>\$ -</u>	<u>\$ 4,798,947</u>	<u>\$ -</u>	<u>\$ 4,798,947</u>
TOTAL NET ASSETS AT END OF YEAR	<u>\$ 738,330</u>	<u>\$ 5,056,925</u>	<u>\$ -</u>	<u>\$ 5,795,255</u>

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Federal Granting Agency and Program Title</u>	<u>Pass-Through Identification Number</u>	<u>CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Department of the Interior				
National Center for Preservation Technology and Training	N/A	15.923	\$ -	\$ 18,003
National Endowment for the Humanities				
Promotion of the Humanities - Division of Preservation and Access	N/A	45.149	-	262,492
Institute of Museum and Library Services				
National Leadership Grants	N/A	45.312	-	<u>737,827</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -</u>	<u>\$ 1,018,322</u>

**AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Foundation of the American Institute for Conservation of Historic and Artistic Works (FAIC) under programs of the United States Government for the year ended December 31, 2018. Information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of FAIC, it is not intended to and does not present the financial position, changes in net assets or cash flows of FAIC.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. FAIC has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements

Grants and contributions revenue per the audited financial statements		\$	1,643,992
Less: non-federal grants and contributions			<u>(625,670)</u>
FEDERAL EXPENDITURES PER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS		\$	<u><u>1,018,322</u></u>

AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting:

Unmodified

2). Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

3). Noncompliance material to financial statements noted?

Yes No

Federal Awards

4). Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

5). Type of auditor's report issued on compliance for major federal programs:

Unmodified

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

7). Identification of major federal programs:

Name of Federal Program	CFDA Number
National Leadership Grants	45.312

8). Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

9). Auditee qualified as a low-risk auditee?

Yes No

AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section II - Financial Statement Findings

See Finding 2018-001 under Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

Finding 2018-001: Timesheets

Federal Programs: All

Criteria: Title 2 U.S. Code of Federal Regulations (CFR) Part 200, paragraph 430 "Compensation – personal services" requires that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed, and that these records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Additionally, these records must comply with established accounting policies and practices of the non-Federal entity.

Condition: Our audit work revealed that the current time-recording system is based on estimated percentages for the various programmatic categories of the organization versus actual hours. Additionally, we noted that timesheets lacked evidence of supervisory review and approval.

Cause: FAIC utilizes a timesheet system. However, the current format of these timesheets does not break down the actual level of effort per program, but rather captures time worked versus leave time (in hours) with a separate portion that includes estimated percentages per program. FAIC also did not require that timesheets include a documented supervisory review and approval.

Effect or Potential Effect: FAIC could inadvertently mischarge salaries and wages to its various programs.

Questioned Costs: Undetermined

Context: FAIC's current time-recording system does not capture the actual level of effort per program. The issue is deemed to be systemic in nature.

Identification as a Repeat Finding: Not applicable

Recommendation: We recommend that management evaluate its current time-keeping system and make any modifications necessary in order to strengthen internal controls over this process and ensure full compliance with the above-noted regulations. We also recommend that the supervisory review of timesheets be clearly documented.

View of Responsible Officials: We agree with the findings of the auditor. In response and effective January 1, 2019, AIC revised its time-keeping system using the format recommended by auditors. Time allocations for programs are recorded based on actual hours, which are then translated into percentages for recording the allocations on the payroll register. Timesheets are reviewed and signed by the employee's supervisor before forwarding them to the Executive Director for final review.

AMERICAN INSTITUTE FOR CONSERVATION OF HISTORIC AND ARTISTIC WORKS, INC.
AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a)) (Continued)

Finding 2018-002: Suspension and Debarment

Federal Programs: All

Criteria: Recipients of Federal funding must adhere to specific requirements on screening all potential vendors, suppliers, contractors, subrecipients, employees, fellows, etc. to ensure the organization is not conducting business with excluded parties (as defined by the United States Government). This screening process must also be documented in writing.

Condition: During the year under audit, FAIC did not consistently screen parties according to the above-noted requirements; we noted instances in which screenings were not performed or were not performed timely.

Cause: FAIC maintains a formal policy with regarding to suspension and debarment; however, the policy does not outline the process by which members of the organization should take to ensure compliance and proper documentation of the process.

Effect or Potential Effect: Failure to screen potential vendors, suppliers, contractors, subrecipients, employees, fellows, etc. against the suspended and debarred list increases the possibility that Federal funds may inadvertently be provided to parties deemed to be excluded by the United States Government.

Questioned Costs: Undetermined

Context: FAIC engaged in relationships and made payments throughout the fiscal year to parties without a proper screening process in place. Our audit procedures consisted of substantive testwork over various samples of expenditures, and were deemed to be representative of the population for the fiscal year under audit. Furthermore, we determined that the issue was systemic in nature.

Identification as a Repeat Finding: Not applicable

Recommendation: We recommend that FAIC develop a formal policy that addresses this requirement, and communicate these policies and procedures to employees of the organization, and also stress the importance of documenting compliance with these "Suspension and Debarment" provisions. Finally, the screening of potential vendors and suppliers should be completed (and documented) prior to entering into the transactions or making payments, and should be periodically revisited (and documentation updated) for ongoing relationships with parties.

Views of Responsible Officials: We agree with the findings of the auditor and will create a formal policy and enhance our procedures to comply with the "Suspension and Debarment" provisions. These policies and procedures will be communicated to employees. AIC will screen current vendors/suppliers against the SAM.gov active exclusion checklist annually and document the result in a memo detailing the process and date of the vendor review. The memo should be signed by the preparer and a staff person reviewing it. Screening of potential vendors and suppliers will be completed and documented prior to selecting the vendor/supplier, entering into transactions, or making payments.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Board of Directors
Foundation of the American Institute for Conservation of Historic and Artistic Works
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Foundation of the American Institute for Conservation of Historic and Artistic Works (FAIC) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise FAIC's basic financial statements, and have issued our report thereon dated April 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered FAIC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FAIC's internal control. Accordingly, we do not express an opinion on the effectiveness of FAIC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FAIC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-001, that we consider to be a significant deficiency.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FAIC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-001.

FAIC's Response to the Finding

FAIC's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. FAIC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



April 25, 2019

GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

Independent Auditor's Report

To the Board of Directors
Foundation of the American Institute for Conservation of Historic and Artistic Works
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited the Foundation of the American Institute for Conservation of Historic and Artistic Work's (FAIC's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of FAIC's major federal programs for the year ended December 31, 2018. FAIC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of FAIC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about FAIC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of FAIC's compliance.

Opinion on Each Major Federal Program

In our opinion, FAIC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

FAIC's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. FAIC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of FAIC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered FAIC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of FAIC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-001 and 2018-002, that we consider to be significant deficiencies.

FAIC's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. FAIC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gelman Rosenberg & Freedman

April 25, 2019