Turnaround Management Association

Consolidated Financial Report
December 31, 2019

Contents

plante moran

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report

To the Audit Committee
Turnaround Management Association

We have audited the accompanying consolidated financial statements of Turnaround Management Association (the "Association"), which comprise the consolidated statement of financial position as of December 31, 2019 and 2018 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Turnaround Management Association as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. Further information regarding the effect of this pandemic is disclosed in Note 2 to the consolidated financial statements. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

October 7, 2020

Consolidated Statement of Financial Position

December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,364,776	$ 1,160,204
Investments (Note 3)	5,414,851	4,727,971
Receivables	210,183	158,626
Prepaid expenses (Note 6)	157,268	174,386
Total current assets	7,147,078	6,221,187
Equipment - Net (Note 5)	194,463	254,981
Total assets	**$ 7,341,541**	**$ 6,476,168**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 121,648	$ 92,733
Contract liabilities:		
Deferred conference fees	435,814	401,149
Deferred membership dues	750,102	767,169
Other contract liabilities	98,355	59,350
Chapter payables (Note 12)	422,205	221,561
Accrued expenses	191,719	235,159
Current portion of deferred rent expense	48,637	45,764
Total current liabilities	2,068,480	1,822,885
Deferred Rent Expense (Note 7)	187,701	236,340
Total liabilities	2,256,181	2,059,225
Net Assets		
Without donor restrictions:		
Undesignated	3,632,237	3,126,355
Board designated (Note 10)	1,451,123	1,288,588
Total without donor restrictions	5,083,360	4,414,943
With donor restrictions	2,000	2,000
Total net assets	5,085,360	4,416,943
Total liabilities and net assets	**$ 7,341,541**	**$ 6,476,168**

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Membership dues	$ 1,945,979	$ -	$ 1,945,979	$ 2,035,942	$ -	$ 2,035,942
Chapter allocations (Note 12)	(351,229)	-	(351,229)	(369,169)	-	(369,169)
Commissions	19,190	-	19,190	6,150	-	6,150
Conference revenue	2,269,350	-	2,269,350	1,982,024	-	1,982,024
Education	17,337	-	17,337	56,385	-	56,385
Certification	106,575	-	106,575	94,827	-	94,827
Designation	130,325	-	130,325	128,950	-	128,950
Subscriptions and advertising fees	153,855	-	153,855	161,652	-	161,652
TMA Europe registration, sponsorships, and exhibits	174,587	-	174,587	102,671	-	102,671
Total revenue, gains, and other support	4,465,969	-	4,465,969	4,199,432	-	4,199,432
Expenses						
Personnel	1,826,634	-	1,826,634	1,706,338	-	1,706,338
Travel	235,195	-	235,195	174,121	-	174,121
Office supplies and expenses	271,842	-	271,842	260,848	-	260,848
Professional services	267,121	-	267,121	256,717	-	256,717
Marketing	117,596	-	117,596	94,474	-	94,474
Facility	261,975	-	261,975	260,607	-	260,607
Conferences and meetings	749,711	-	749,711	590,774	-	590,774
Technology	533,147	-	533,147	485,332	-	485,332
Grants	27,803	-	27,803	70,073	-	70,073
Miscellaneous	188,467	-	188,467	152,840	-	152,840
Total expenses	4,479,491	-	4,479,491	4,052,124	-	4,052,124
(Decrease) Increase in Net Assets from Operations	(13,522)	-	(13,522)	147,308	-	147,308
Investment Income (Loss) (Note 4)	681,939	-	681,939	(318,414)	-	(318,414)
Increase (Decrease) in Net Assets	668,417	-	668,417	(171,106)	-	(171,106)
Net Assets - Beginning of year	4,414,943	2,000	4,416,943	4,586,049	2,000	4,588,049
Net Assets - End of year	**$ 5,083,360**	**$ 2,000**	**$ 5,085,360**	**$ 4,414,943**	**$ 2,000**	**$ 4,416,943**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 668,417	$ (171,106)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	99,347	102,438
Net change in realized and unrealized (gains) losses on investments	(569,058)	401,509
Changes in operating assets and liabilities that (used) provided cash:		
Accounts receivable	(51,557)	36,597
Prepaid expenses	17,118	148,250
Deposits	-	14,304
Accounts payable	28,915	48
Deferred revenue	56,603	30,609
Accrued expenses and deferred rent	(89,206)	(64,800)
Chapter payables	200,644	(36,880)
Net cash provided by operating activities	361,223	460,969
Cash Flows from Investing Activities		
Capital expenditures	(38,829)	(21,331)
Purchases of investments	(256,236)	(5,787,893)
Proceeds from sales and maturities of investments	138,414	5,241,440
Net cash used in investing activities	(156,651)	(567,784)
Net Increase (Decrease) in Cash and Cash Equivalents	204,572	(106,815)
Cash and Cash Equivalents - Beginning of year	1,160,204	1,267,019
Cash and Cash Equivalents - End of year	**$ 1,364,776**	**$ 1,160,204**

See notes to consolidated financial statements.

Note 1 - Nature of Business

Turnaround Management Association (TMA or the "Association") was incorporated as a not-for-profit corporation in the state of North Carolina in 1988 as an international educational and professional association composed of individuals in corporate renewal and turnaround management. Subsequently, in 2006, the Association was incorporated in Illinois via a merger under the Illinois General Not-for-Profit Act. The Association provides its members networking forums to exchange information, ideas, and knowledge about the turnaround business, educational programs to improve methodologies in turnaround management, and information to promote the image and credibility of turnaround executives as professionals committed to the highest standards of practice.

On January 31, 2011, TMA incorporated a new subsidiary entity entitled TMA (Europe) LTD. (TMA Europe). Its Certificate of Incorporation of a Private Limited Company is registered with the Registrar of Companies for England and Wales, U.K., under the Companies Act of 2006, and whose registered office is in Middlesex, England, U.K. TMA is the owner of all 1,000 shares of the new company, whose purpose is the management of the annual conference in Europe and providing management assistance as needed over TMA's European chapters.

The Association's Certified Turnaround Professional (CTP) and Certified Turnaround Analyst (CTA) program recognizes professional excellence and provides an objective measure of expertise related to workouts, restructurings, and corporate renewal. Applicants for certification must meet stringent standards of education, experience, and professional conduct; pass a comprehensive examination; and maintain the credential through continuing education credits.

The Association's board-designated endowment fund is dedicated to the development and promotion of educational programs and initiatives for the corporate renewal industry and turnaround professionals.

The Association is headquartered and conducts its activities from offices in Chicago, Illinois.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of TMA and TMA Europe. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Association considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Association maintains cash in bank deposit accounts that at times may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash and cash equivalents.

Foreign Currency Translation

Assets and liabilities of TMA Europe and certain bank accounts held by the Association are translated into U.S. dollars at the rate of exchange in effect at the close of the period. Revenue and expenses of TMA Europe are translated into U.S. dollars at an average rate of exchange for the period. The aggregate foreign currency translation effect on the consolidated financial statements was $14,339 and $14,654 for the years ended December 31, 2019 and 2018, respectively.

Investments

Investments are reported at fair value. Investment income, including net realized and unrealized gains and losses, is included in the change in net assets in the accompanying consolidated statement of activities and changes in net assets. Interest income is recorded on the accrual basis.

Note 2 - Significant Accounting Policies (Continued)

The Association's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in value of investments will occur in the near future and will materially affect the amounts reported in the consolidated financial statements.

Equipment

Equipment is recorded at cost and depreciated over the estimated useful lives using the straight-line method. Costs of maintenance and repairs are charged to expense when incurred.

Accounts Receivable

Accounts receivable are stated at net invoice amounts. Receivables are generated primarily from event sponsorships and dues from TMA chapters. An allowance for doubtful accounts is established based on a specific assessment of the collectibility or specific funding source accounts and the aging of the accounts receivable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. Management considers all accounts receivable collectible, and, therefore, an allowance for doubtful accounts has not been recorded at December 31, 2019 and 2018.

Classification of Net Assets

Net assets of the Association are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Association.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Board-designated Net Assets

Board-designated net assets are net assets without donor restrictions designated by the board primarily for the development and promotion of educational programs and initiatives for the corporate renewal industry and turnaround professionals. These designations are based on board actions, which can be altered or revoked at a future time by the board.

Revenue

Membership dues are assessed on an anniversary basis and recognized as revenue during the applicable membership period. Fees received for future membership are included in deferred revenue.

Conference fees are recognized as revenue in the period in which the conference is held. Fees received for future conferences are included in deferred revenue.

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 14. Costs have been allocated between the various program and support services on several bases and estimates. Allocations for personnel expenses are based on estimates of time and effort of personnel involved in each function. Depreciation, occupancy, and utilities are allocated based on full-time equivalent (FTE) positions within each function. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Tax Status

The Association is a not-for-profit corporation and has been granted tax-exempt status by the Internal Revenue Service under the provisions of Code Section 501(c)(6). TMA Europe is subject to the income tax laws of Great Britain. Net income from activities unrelated to the Association's tax-exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Association and has concluded that, as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements.

Use of Estimates

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

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of 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 ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Association's year ending December 31, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Association plans to apply the standard using the modified retrospective method. The Association's primary revenue streams are not expected to be significantly impacted by the ASU; however, deferred revenue may be impacted by the implementation.

Note 2 - Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Association's year ending December 31, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Association’s consolidated financial statements as a result of the leases for assets and liabilities classified as operating leases. The effects on the changes in net assets are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including October 7, 2020, which is the date the consolidated financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As of the date of issuance of the consolidated financial statements, the Association has not seen significant reductions in registration due to changing the TMA Annual event in September to a virtual event. In addition, the Association exceeded its sponsorship goals for this event. Contracts for in-person events, including deposits, have been transferred without penalty to future periods. Many of the Association's other revenue streams, such as membership, education, certification, and designation, have been able to continue on a virtual basis without declines in membership renewals. The Association continues to monitor the situation. As the pandemic continues, the Association's results of operations, cash flows, investment portfolio, and financial condition could be adversely impacted, but the extent of the impact cannot be reasonably estimated at this time. No impairments were recorded as of the consolidated statement of financial position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Association’s assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Association to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Association has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Note 3 - Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Association's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2019
Assets					
Fixed income:					
Intermediate-duration portfolio	$ 573,252	$ -	$ -	$ -	$ 573,252
Inflation strategy	48,919	-	-	-	48,919
Real asset	186,717	-	-	-	186,717
Unconstrained bond	241,378	-	-	-	241,378
Global fixed income	515,709	-	-	-	515,709
Total fixed income	1,565,975	-	-	-	1,565,975
Equities:					
U.S. equity	779,382	-	-	-	779,382
International	1,036,723	-	-	-	1,036,723
Total equities	1,816,105	-	-	-	1,816,105
Money market	461,701	-	-	-	461,701
Alternative investments:					
Overlay A Portfolio	-	-	-	1,024,773	1,024,773
Overlay B Portfolio	-	-	-	380,439	380,439
Multi-Manager Alternative Fund	-	-	-	137,228	137,228
Private Credit Investors Corporation	-	-	-	22,374	22,374
Total alternative investments	-	-	-	1,564,814	1,564,814
Total assets	$ 3,843,781	$ -	$ -	$ 1,564,814	$ 5,408,595

Note 3 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2018
Assets					
Fixed-income:					
Intermediate-duration portfolio	$ 542,807	$ -	$ -	$ -	$ 542,807
Inflation strategy	45,136	-	-	-	45,136
Real asset	159,757	-	-	-	159,757
Unconstrained bond	215,275	-	-	-	215,275
Global fixed income	484,604	-	-	-	484,604
Total fixed-income	1,447,579	-	-	-	1,447,579
Equities:					
U.S. equity	616,335	-	-	-	616,335
International	852,446	-	-	-	852,446
Total equities	1,468,781	-	-	-	1,468,781
Money market	452,012	-	-	-	452,012
Alternative investments:					
Overlay A Portfolio	-	-	-	883,682	883,682
Overlay B Portfolio	-	-	-	344,889	344,889
Multi-Manager Alternative Fund	-	-	-	131,023	131,023
Total alternative investments	-	-	-	1,359,594	1,359,594
Total assets	$ 3,368,372	$ -	$ -	$ 1,359,594	$ 4,727,966

Not included in the above table is $6,256 and $5 in cash accounts as of December 31, 2019 and 2018, respectively.

Investments in Entities that Calculate Net Asset Value per Share

The Association holds shares or interests in investment companies (alternative investments) where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

Note 3 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	December 31, 2019	December 31, 2018	December 31, 2019		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Overlay A Portfolio	$ 1,024,774	$ 883,682	$ -	Daily	One day
Overlay B Portfolio	380,439	344,889	-	Daily	One day
Multi-Manager Alternative Fund	137,228	131,023	-	Quarterly	45 days
Private Credit Investors Corporation	22,374	-	110,000	Ineligible until fully committed	
Total	$ 1,564,814	$ 1,359,594	$ 110,000		

The investment objective of the Overlay A Portfolio is to moderate the volatility of an equity-oriented asset allocation over the long term. It may invest in a diversified portfolio of securities and other financial instruments, including derivative instruments that provide investment exposure to a variety of asset classes. These asset classes may include equity securities and fixed-income instruments of issuers located within and outside of the United States, real estate-related securities, below-investment-grade securities, currencies, and commodities. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The investment objective of the Overlay B Portfolio is to moderate the volatility of fixed-income-oriented asset allocation over the long term. It may invest in a diversified portfolio of securities and other financial instruments, including derivative instruments that provide investment exposure to a variety of asset classes. These asset classes may include equity securities and fixed-income instruments of issuers located within and outside of the United States, real estate-related securities, below-investment-grade securities, currencies, and commodities. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The investment objective of the Multi-Manager Alternative Fund is to allocate its assets among nontraditional and alternative investment strategies. The funds are allocated in the following strategy types: long/short equity, special situations, credit, and global macro. These asset classes may include equity securities and fixed-income instruments of issuers located within and outside of the United States, real estate-related securities, below-investment-grade securities, currencies, and commodities. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The investment objective of the Private Credit Investors Corporation is to generate current income through direct investments in privately originated loans and notes and, to a lesser extent, long-term capital appreciation through private equity investments. The funds are allocated primarily within debt instruments. These asset classes may include equity securities and fixed-income instruments of issuers located within and outside of the United States, real estate-related securities, below-investment-grade securities, currencies, and commodities. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

Note 4 - Investments

Investment income (loss) is composed of the following:

	2019	2018
Interest and dividends	$ 112,881	$ 83,095
Net realized and unrealized gains (losses)	569,058	(401,509)
Total	$ 681,939	$ (318,414)

Interest and dividend income is shown net of investment fees of $13,755 and $20,442 for December 31, 2019 and 2018, respectively.

Note 5 - Equipment

The cost of equipment is summarized as follows:

	2019	2018	Depreciable Life - Years
Leased equipment	$ 21,685	$ 21,685	2-10
Furniture and fixtures	357,338	357,338	3-5
Computer equipment and software	716,347	677,520	3-5
Leasehold improvements	188,872	188,872	5-10
Total cost	1,284,242	1,245,415	
Less accumulated depreciation	1,089,779	990,434	
Net equipment	$ 194,463	$ 254,981	

Depreciation and amortization expense for 2019 and 2018 was $99,347 and $102,438, respectively. Amortization of equipment under capital leases is included with depreciation expense.

Note 6 - Prepaid Expenses

Prepaid expenses as of December 31, 2019 and 2018 consist of the following:

	2019	2018
Conference	$ 112,226	$ 80,477
Insurance	6,715	6,733
Meetings, travel, and other	38,327	87,176
Total	$ 157,268	$ 174,386

Note 7 - Operating Leases

The Association entered into a lease on August 9, 2012 with a commencement date of August 1, 2013. The terms of the lease require annual rent payments of $168,042, increasing periodically to $196,766 through May 2024. The lease provides for a tenant allowance of $310,230, of which up to $166,605 can be applied against the prior lease termination penalty, with the remainder to be used for the cost of leasehold improvements. Accordingly, the Association accounted for the entire tenant allowance as deferred lease incentive and will recognize the incentive as a reduction of rent expense over the life of the lease. In addition, the lease provides for abated rental payments for 12 months between 2012 and 2015, totaling approximately $172,000. The Association recognizes rent expense on a straight-line basis over the life of the lease. Deferred rent expense, including deferred lease incentive, as of December 31, 2019 and 2018 was $236,338 and $282,104, respectively.

Note 7 - Operating Leases (Continued)

Future minimum annual commitments under this operating lease are as follows:

Years Ending December 31	Amount
2020	$ 186,473
2021	189,346
2022	192,218
2023	195,091
2024	81,986
Total	$ 845,114

The rent expense under all operating leases was $137,836 for the years ended December 31, 2019 and 2018.

The Association also leases general, low-cost office equipment through various vendors.

Note 8 - Retirement Plan

The Association sponsors a 401(k) plan for eligible employees. Eligible employees must be on staff for one year before becoming eligible to enroll in the plan. Employees make deferrals under the terms of the plan. The Association matches up to 6 percent of the deferrals. Retirement plan expense was $53,023 and $56,236 for the years ended December 31, 2019 and 2018, respectively.

Note 9 - Association of Certified Turnaround Professionals, Inc.

The Association merged with Association of Certified Turnaround Professionals, Inc. (ACTP) effective January 1, 2008. The merger was accounted for similar to a pooling of interests method. The Association provides certification and training to professionals in the turnaround industry. The program includes developing and organizing a body of knowledge composed of a core curriculum of universal, tangible principles and practices required of the turnaround profession and related disciplines. Minimum standards for individuals seeking certification have been established, national educational programs have been developed and are taught on a regular basis, and an examination program is in place for certification. Prior to 2008, many of the functions of the certification program were carried out by ACTP, with staff support and underwriting by the Association.

Under the terms of the agreement, the certification oversight committee (COC) has been established by the Association and is responsible for evaluating whether the Association is conducting the Certified Turnaround Professional (CTP) program in accordance with its mission. If, after consultation with the board of the Association, the COC determines that the Association has failed to meet the mission of the certification program, the COC can elect to disassociate the certification program from the Association. Through March 11, 2012, had there been a disassociation, the Association would have been liable to the successor certification program for providing net assets in the amount of $395,538. For a disassociation after 2012, the Association would have been liable to provide $197,769 in net assets to the successor organization under the merger agreement.

Note 9 - Association of Certified Turnaround Professionals, Inc. (Continued)

However, on March 12, 2012, the Association's executive board unanimously approved amending the TMA bylaws, primarily to make changes to the COC and its relationship with TMA. The key changes include the following: (1) the full integration of the CTP program into TMA while providing the COC the responsibility for setting the annual CTP program fees, standards for CTP designees, and the marketing/promotion of the CTP program; (2) annual fees will be budgeted for through the TMA budget process, but will be segregated strictly for CTP program purposes; (3) effective on January 1, 2013, the establishment of a board-designated fund of $250,000 (which can grow to a maximum of $300,000 from the accumulation of annual CTP program operating surpluses) to exist through the year 2020 to offset any CTP program operating deficits; (4) all education and testing responsibilities will fall under the TMA Education program; and (5) the disassociation provision under the original merger agreement was removed, effective on March 12, 2012. The Association established the $250,000 board-designated fund during 2012 and increased the balance to the $300,000 maximum during 2013. The board-designated fund is included in net assets without donor restrictions in the consolidated statement of financial position.

Note 10 - Board-designated Endowment

In 2005, the Association's executive board established the endowment fund (formerly known as Cornerstone) for the purpose of providing funding for various education-related initiatives and a reserve for the Association's operations.

The Association created and approved its investment policy statement in 2011 for both its operating and endowment net assets, which balances the objectives of capital appreciation and generation of income, along with security of principal. The endowment fund portfolio is composed of money market funds, fixed-income mutual funds, equities, dynamic asset allocation funds, and annuities and is professionally managed by a registered investment manager in accordance with the parameters outlined in the investment policy statement.

Changes in endowment net assets for the year ended December 31 are as follows:

	Endowment Net Asset Composition by Type of Fund as of December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 1,451,123	$ -	$ 1,451,123

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 1,288,588	$ -	$ 1,288,588
Investment return - Investment earnings	162,535	-	162,535
Endowment net assets - End of year	$ 1,451,123	$ -	$ 1,451,123

	Endowment Net Asset Composition by Type of Fund as of December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 1,288,588	$ -	$ 1,288,588

Note 10 - Board-designated Endowment (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 1,339,249	$ -	$ 1,339,249
Investment return - Investment income	(27,822)	-	(27,822)
Appropriation of endowment assets for expenditure - Cornerstone program	(22,839)	-	(22,839)
Endowment net assets - End of year	$ 1,288,588	$ -	$ 1,288,588

The Association's executive board determines whether income, if any, will be distributed from the endowment fund and maintains broad discretion to direct such funds to current operations, capital expenditures, or new programs. Under extraordinary circumstances, the endowment fund's corpus also may be designated by the board to fund any part of the Association's operations.

For the years ended December 31, 2019 and 2018, the endowment fund provided operations with $0 and $22,839, respectively.

Note 11 - Commitment

On July 30, 2018, the Association entered into an employee agreement with its chief executive officer for a term of three years. If the Association terminates the agreement without cause, as defined in the agreement, the Association shall pay an amount equal to the executive director's current salary for six months plus unused accrued vacation pay.

Note 12 - Related Party Transactions

The Association is the national governing body of the TMA chapters. The agreement with the chapters states that the Association will receive 80 percent of all membership dues, and the chapters will receive 20 percent. The Association also collects event revenue for the chapters and then remits the full amount to them, net of processing costs. For the years ended December 31, 2019 and 2018, the chapters' allocation of dues totaled $351,229 and $369,169, respectively. As of December 31, 2019 and 2018, the Association owed the chapters $422,205 and $221,561, respectively.

Note 13 - Contingencies

The Association has entered into contracts for services and accommodations for future meetings. Some of these contracts include attrition penalty clauses, which would require the Association to pay certain amounts if a meeting were canceled or if the Association were to not meet its room block or food and beverage guarantees.

Note 14 - Functional Expenses

The Association's expenses are classified by functional category as follows for the years ended December 31:

	2019	2018
Program:		
Personnel	$ 1,052,543	$ 945,773
Travel	208,539	127,594
Postage and printing	184,370	165,083
Awards	5,840	28,510
Office supplies and expenses	18,459	6,183
Professional services	163,578	102,689
Facility	150,955	144,447
Conferences and meetings	740,152	582,386
Technology	258,095	211,560
Grants	27,803	47,478
Miscellaneous	87,175	134,114
Total program	2,897,509	2,495,817
Management and administration:		
Personnel	774,091	760,565
Travel	26,656	46,527
Postage and printing	5,001	5,870
Awards	-	38
Office supplies and expenses	58,172	55,164
Professional services	103,543	154,028
Facility	111,020	116,160
Marketing	117,596	94,474
Conferences and meetings	9,559	8,388
Technology	275,052	273,772
Grants	-	22,595
Miscellaneous	101,292	18,726
Total management and administration	1,581,982	1,556,307
Total	$ 4,479,491	$ 4,052,124

Note 15 - Liquidity

The following reflects the Association's financial assets as of December 31, reduced by amounts not available for general use because of donor-imposed restrictions or board designations within one year of the consolidated statement of financial position date:

	2019	2018
Cash and cash equivalents	$ 1,364,776	$ 1,160,204
Investments	5,414,851	4,727,971
Accounts receivable	210,183	158,626
Financial assets - At year end	6,989,810	6,046,801
Less those unavailable for general expenditures within one year due to:		
Donor-imposed restrictions	2,000	2,000
Board designations	1,451,123	1,288,588
Financial assets available to meet cash needs for general expenditures within one year	$ 5,536,687	$ 4,756,213

Note 15 - Liquidity (Continued)

The Association has a goal to maintain financial assets, which primarily consist of cash, on hand to meet 60 days of normal operating expenses, which are, on average approximately $746,000. The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.