

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2006 and 2005

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY**

Table of Contents

Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities	3 – 4
Statements of Functional Expenses.....	5 – 6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 15
Supplementary Information:	
Temporarily Restricted Net Assets	16
Permanently Restricted Net Assets	17

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of the
American Association for State and Local History
Nashville, Tennessee

We have audited the accompanying statements of financial position of the American Association for State and Local History (the "Association") (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Association of State and Local History as of June 30, 2006 and 2005, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information on pages 16 and 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Frasier, Dean & Howard, PLLC

October 13, 2006

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005**

ASSETS		
	2006	2005
Current assets:		
Cash and cash equivalents	\$ 163,226	\$ 76,004
Investments - unrestricted	92,559	103,640
Grants receivable	-	18,764
Accounts receivable, less allowance of \$3,417 and \$5,000	103,987	102,735
Unconditional promises to give, restricted	-	5,000
Prepaid expenses and deposits	62,343	63,610
Total current assets	422,115	369,753
Property and equipment, net	25,083	7,709
Investments - substantially restricted	1,321,369	1,277,565
Total assets	<u>\$ 1,768,567</u>	<u>\$ 1,655,027</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 103,716	\$ 42,598
Current portion of note payable	2,685	-
Unearned membership dues	261,880	226,693
Other unearned revenue	119,393	71,012
Total current liabilities	487,674	340,303
Note payable, net of current portion	17,679	-
Total liabilities	505,353	340,303
Net assets:		
Unrestricted	(34,404)	44,224
Temporarily restricted	161,939	135,571
Permanently restricted	1,135,679	1,134,929
Total net assets	1,263,214	1,314,724
Total liabilities and net assets	<u>\$ 1,768,567</u>	<u>\$ 1,655,027</u>

See accompanying notes.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Membership dues	\$ 522,673	\$ -	\$ -	\$ 522,673
Federal grants and awards	61,866	-	-	61,866
Investment income	11,523	103,489	-	115,012
Annual meeting	166,038	-	-	166,038
Contributions	204,885	-	750	205,635
Education and training	93,114	-	-	93,114
Conferences	44,755	-	-	44,755
Royalties	48,874	-	-	48,874
Advertising	42,020	-	-	42,020
Sales of publications	9,210	-	-	9,210
Sales of labels	7,697	-	-	7,697
Miscellaneous revenue	10,841	-	-	10,841
Net assets released from restrictions	77,121	(77,121)	-	-
Total revenues, gains and other support	<u>1,300,617</u>	<u>26,368</u>	<u>750</u>	<u>1,327,735</u>
Expenses:				
Program services:				
Annual meeting	230,437	-	-	230,437
Program development	212,304	-	-	212,304
Education and training	113,489	-	-	113,489
Periodicals	120,886	-	-	120,886
Leadership and governance	145,256	-	-	145,256
Performance measures program	121,908	-	-	121,908
Institute for Learning	39,214	-	-	39,214
Incremental Standards program	33,374	-	-	33,374
Publishing	6,285	-	-	6,285
Total program services	<u>1,023,153</u>	<u>-</u>	<u>-</u>	<u>1,023,153</u>
Supporting services:				
Administration and finance	228,318	-	-	228,318
Membership services	75,000	-	-	75,000
Advertising and marketing	29,962	-	-	29,962
Fundraising and program development	22,812	-	-	22,812
Total supporting services	<u>356,092</u>	<u>-</u>	<u>-</u>	<u>356,092</u>
Total expenses	<u>1,379,245</u>	<u>-</u>	<u>-</u>	<u>1,379,245</u>
Change in net assets	(78,628)	26,368	750	(51,510)
Net assets at beginning of year	<u>44,224</u>	<u>135,571</u>	<u>1,134,929</u>	<u>1,314,724</u>
Net assets at end of year	<u>\$ (34,404)</u>	<u>\$ 161,939</u>	<u>\$ 1,135,679</u>	<u>\$ 1,263,214</u>

See accompanying notes.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Membership dues	\$ 462,641	\$ -	\$ -	\$ 462,641
Federal grants and awards	71,469	-	-	71,469
Investment income	7,756	92,930	-	100,686
Annual meeting	157,024	-	-	157,024
Contributions	115,009	14,326	8,634	137,969
Education and training	93,455	-	-	93,455
Royalties	51,608	-	-	51,608
Advertising	41,111	-	-	41,111
Sales of publications	7,768	-	-	7,768
Sales of labels	6,811	-	-	6,811
Miscellaneous revenue	10,954	-	-	10,954
Net assets released from restrictions	59,227	(59,227)	-	-
Total revenues, gains and other support	<u>1,084,833</u>	<u>48,029</u>	<u>8,634</u>	<u>1,141,496</u>
Expenses:				
Program services:				
Annual meeting	223,150	-	-	223,150
Program development	52,809	-	-	52,809
Education and training	203,878	-	-	203,878
Periodicals	116,979	-	-	116,979
Leadership and governance	106,439	-	-	106,439
Performance measures program	55,825	-	-	55,825
Incremental Standards program	3,562	-	-	3,562
Publishing	4,849	-	-	4,849
Total program services	<u>767,491</u>	<u>-</u>	<u>-</u>	<u>767,491</u>
Supporting services:				
Administration and finance	203,931	-	-	203,931
Membership services	76,619	-	-	76,619
Advertising and marketing	30,089	-	-	30,089
Fundraising and program development	19,358	-	-	19,358
Total supporting services	<u>329,997</u>	<u>-</u>	<u>-</u>	<u>329,997</u>
Total expenses	<u>1,097,488</u>	<u>-</u>	<u>-</u>	<u>1,097,488</u>
Change in net assets	(12,655)	48,029	8,634	44,008
Net assets at beginning of year	<u>56,879</u>	<u>87,542</u>	<u>1,126,295</u>	<u>1,270,716</u>
Net assets at end of year	<u>\$ 44,224</u>	<u>\$ 135,571</u>	<u>\$ 1,134,929</u>	<u>\$ 1,314,724</u>

See accompanying notes.

AMERICAN ASSOCIATION FOR STATE AND LOCAL HISTORY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2006

	Program Services								Supporting Services					
	Annual Meeting	Program Development	Education & Training	Periodicals	Leadership & Governance	Performance Measures Program	Institute for Learning	Incremental Standards Program	Publishing	Administrative & Finance	Membership Services	Advertising & Marketing	Fundraising	Total
Salaries	\$ 50,664	\$ 38,428	\$ 25,308	\$ 15,040	\$ 64,374	\$ 27,479	\$ -	\$ 16,740	\$ 1,342	\$ 110,462	\$ 28,436	\$ 7,443	\$ 9,130	\$ 394,846
Taxes and benefits	10,293	7,448	4,905	3,962	13,445	5,326	-	3,244	260	22,214	5,511	2,081	1,770	80,459
Supplies/shipping/postage	6,972	3,517	6,330	28,763	3,885	2,132	-	924	948	13,162	16,820	1,222	5,505	90,180
Travel	9,669	61,639	15,270	-	13,881	2,863	-	5,342	-	-	-	-	-	108,664
Professional training	-	-	-	-	1,515	-	-	-	-	6,713	221	2	-	8,451
Duplicating	195	121	141	4	340	161	-	127	78	(852)	-	-	6	321
Dues and subscriptions	-	-	-	-	1,325	-	-	-	-	-	-	-	-	1,325
Special events	41,371	-	-	-	-	-	-	-	-	-	-	-	-	41,371
Printing	8,415	1,965	3,614	47,147	2,970	830	-	253	-	2,013	12,421	211	2,994	82,833
Design	9,296	2,326	1,475	13,354	915	1,229	-	-	-	-	185	698	-	29,478
Direct costs and COGS	60,366	-	-	5,489	-	-	-	-	-	-	-	-	-	65,855
Sponsorships and awards	-	-	12,166	-	5,161	-	-	-	-	3,500	1,235	-	-	22,062
Miscellaneous	14,031	495	4,137	-	7,241	71,010	3,881	153	45	12,698	-	586	325	114,602
Credit card charges	-	-	-	-	-	-	-	-	-	13,956	-	-	-	13,956
Bad debt	-	-	-	-	-	-	-	-	-	5,000	-	-	-	5,000
Meeting expenses	-	36,355	9,325	-	4,553	359	31,074	-	3,075	-	-	8,757	-	93,498
Consultants	-	37,683	21,989	-	-	-	4,259	-	-	-	-	-	-	63,931
	<u>211,272</u>	<u>189,977</u>	<u>104,660</u>	<u>113,759</u>	<u>119,605</u>	<u>111,389</u>	<u>39,214</u>	<u>26,783</u>	<u>5,748</u>	<u>188,866</u>	<u>64,829</u>	<u>21,000</u>	<u>19,730</u>	<u>1,216,832</u>
Rent	5,225	3,645	2,400	1,939	6,580	2,606	-	1,588	127	10,872	2,697	1,019	866	39,564
Depreciation	539	299	197	159	540	214	-	130	10	738	221	84	72	3,203
Legal and professional	1,272	911	600	485	1,644	2,273	-	397	32	2,717	674	3,005	216	14,226
Insurance	1,227	862	568	459	1,557	617	-	376	30	2,572	593	741	205	9,307
Telephone/internet	2,367	6,091	938	753	3,873	7	-	1,371	120	3,870	1,351	363	234	21,338
Utilities	573	424	279	226	766	303	-	185	15	1,266	314	119	101	4,571
Building maintenance	690	520	343	277	939	372	-	227	18	1,552	385	145	124	5,592
Equipment and software maintenance	5,780	8,536	2,819	2,276	7,876	3,384	-	1,864	149	12,765	3,167	3,696	1,017	53,329
Equipment lease	1,492	1,039	685	553	1,876	743	-	453	36	3,100	769	290	247	11,283
	<u>19,165</u>	<u>22,327</u>	<u>8,829</u>	<u>7,127</u>	<u>25,651</u>	<u>10,519</u>	<u>-</u>	<u>6,591</u>	<u>537</u>	<u>39,452</u>	<u>10,171</u>	<u>8,962</u>	<u>3,082</u>	<u>162,413</u>
	<u>\$ 230,437</u>	<u>\$ 212,304</u>	<u>\$ 113,489</u>	<u>\$ 120,886</u>	<u>\$ 145,256</u>	<u>\$ 121,908</u>	<u>\$ 39,214</u>	<u>\$ 33,374</u>	<u>\$ 6,285</u>	<u>\$ 228,318</u>	<u>\$ 75,000</u>	<u>\$ 29,962</u>	<u>\$ 22,812</u>	<u>\$ 1,379,245</u>

See accompanying notes.
-5-

AMERICAN ASSOCIATION FOR STATE AND LOCAL HISTORY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2005

	Program Services								Supporting Services				
	Annual Meeting	Program Development	Education & Training	Periodicals	Leadership & Governance	Performance Measures Program	Incremental Standards Program	Publishing	Administrative & Finance	Membership Services	Advertising & Marketing	Fundraising	Total
Salaries	\$ 49,177	\$ 25,263	\$ 28,854	\$ 14,879	\$ 47,479	\$ 8,603	\$ 2,100	\$ 2,026	\$ 105,236	\$ 29,329	\$ 12,178	\$ 7,137	\$ 332,261
Taxes and benefits	10,535	5,414	6,194	3,328	10,438	1,868	448	433	22,551	6,295	2,779	1,530	71,813
Supplies/shipping/postage	7,680	1,562	5,311	28,131	5,436	219	23	1,082	10,453	17,265	328	3,419	80,909
Travel	12,425	2,891	21,539	-	7,811	757	-	-	-	-	-	-	45,423
Professional training	-	-	-	-	195	-	-	-	1,620	-	-	-	1,815
Duplicating	174	74	198	5	346	5	14	89	(799)	279	17	4	406
Dues and subscriptions	-	-	-	-	1,900	-	-	-	-	-	-	-	1,900
Special events	34,386	-	-	-	-	-	-	-	-	-	-	-	34,386
Printing	13,529	3,360	3,587	47,666	2,965	-	-	-	2,710	9,610	9	3,404	86,840
Design	6,598	2,208	5,249	13,982	828	-	-	-	-	293	-	-	29,158
Direct costs and COGS	59,741	-	-	1,673	-	40,982	-	-	-	-	-	-	102,396
Sponsorships and awards	-	-	10,772	-	4,100	-	-	-	2,300	1,830	750	-	19,752
Miscellaneous	5,803	281	2,730	15	663	-	-	142	7,971	-	-	300	17,905
Credit card charges	-	-	-	-	-	-	-	-	9,697	-	-	-	9,697
Meeting expenses	-	984	26,524	-	2,974	-	-	-	-	-	8,927	-	39,409
Consultants	-	-	81,104	1,000	-	-	-	-	-	-	-	342	82,446
	<u>200,048</u>	<u>42,037</u>	<u>192,062</u>	<u>110,679</u>	<u>85,135</u>	<u>52,434</u>	<u>2,585</u>	<u>3,772</u>	<u>161,739</u>	<u>64,901</u>	<u>24,988</u>	<u>16,136</u>	<u>956,516</u>
Rent	5,587	2,856	3,268	1,756	5,507	975	236	229	11,898	3,321	1,466	808	37,907
Depreciation	818	356	407	219	686	121	29	28	1,381	413	183	100	4,741
Legal and professional	1,337	677	774	416	1,305	559	56	54	2,819	787	347	191	9,322
Insurance	1,244	666	762	409	1,284	227	55	53	2,773	774	342	188	8,777
Telephone/internet	2,018	1,798	1,550	783	4,002	1	235	359	4,014	1,285	495	685	17,225
Utilities	569	294	336	182	567	100	24	24	1,225	342	151	84	3,898
Building maintenance	746	346	396	213	668	118	29	28	1,442	403	178	98	4,665
Equipment and software maintenance	9,312	2,962	3,388	1,820	5,710	1,011	245	237	13,237	3,443	1,520	837	43,722
Equipment lease	1,471	817	935	502	1,575	279	68	65	3,403	950	419	231	10,715
	<u>23,102</u>	<u>10,772</u>	<u>11,816</u>	<u>6,300</u>	<u>21,304</u>	<u>3,391</u>	<u>977</u>	<u>1,077</u>	<u>42,192</u>	<u>11,718</u>	<u>5,101</u>	<u>3,222</u>	<u>140,972</u>
	<u>\$ 223,150</u>	<u>\$ 52,809</u>	<u>\$ 203,878</u>	<u>\$ 116,979</u>	<u>\$ 106,439</u>	<u>\$ 55,825</u>	<u>\$ 3,562</u>	<u>\$ 4,849</u>	<u>\$ 203,931</u>	<u>\$ 76,619</u>	<u>\$ 30,089</u>	<u>\$ 19,358</u>	<u>\$ 1,097,488</u>

See accompanying notes.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (51,510)	\$ 44,008
Adjustments to reconcile change in net assets to net cash provided by (used) operating activities:		
Depreciation	3,203	4,741
Unrealized gain on investments	(49,146)	(40,885)
Contributions to permanently restricted net assets	(750)	(1,134)
Decrease (increase) in operating assets		
Accounts receivable, net	3,748	21,181
Prepaid expenses and deposits	1,267	(905)
Grants receivable	18,764	68,438
Unconditional promises to give, restricted	-	4,250
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	61,118	(73,057)
Unearned membership dues	35,187	12,569
Unearned grant funds	-	(82,041)
Unearned revenue-other	48,381	(27,274)
Net cash provided (used) by operating activities	<u>70,262</u>	<u>(70,109)</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(3,787)
Purchase of investments	(1,365,117)	(69,786)
Proceeds from sale of investments	1,381,540	150,000
Net cash provided by investing activities	<u>16,423</u>	<u>76,427</u>
Cash flows from financing activities:		
Contributions to permanently restricted net assets	750	1,134
Payments made on note payable	(213)	-
Net cash provided by financing activities	<u>537</u>	<u>1,134</u>
Net increase in cash and cash equivalents	87,222	7,452
Cash and cash equivalents at beginning of year	<u>76,004</u>	<u>68,552</u>
Cash and cash equivalents at end of year	<u><u>\$ 163,226</u></u>	<u><u>\$ 76,004</u></u>
Supplemental disclosure:		
Noncash activities:		
Property and equipment purchases financed	<u><u>\$ 20,577</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General and Nature of Activities

The American Association for State and Local History (AASLH) (the “Association”) was formed in 1940 and incorporated under the laws of the District of Columbia in November 1944 as a nonprofit organization. AASLH provides leadership and support for its members who preserve and interpret state and local history in order to make the past more meaningful to all Americans. Additionally, the Association provides information and training through publications, annual meetings, seminars, workshops, the development of professional standards, and the identification and analysis of issues critical to the field. Consequently, membership consists of individuals and organizations located throughout the United States and Canada.

Financial Statement Presentation

The Association has adopted Statement of Financial Accounting Standards (“SFAS”) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Association is required to present a statement of cash flows.

Estimates

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

The Association has adopted Statement of Financial Accounting Standards (“SFAS”) No. 124, “Accounting for Certain Investments Held by Not-for-Profit Organizations.” Under SFAS No., 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

It is the Association's policy to capitalize property and equipment with an original cost over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets which are generally five years.

Compensated Absences

The Association has accrued for vacation pay based on the employees' last anniversary date. Compensated absences for sick pay and other leave have not been accrued since they are not vested.

Contributions

The Association has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Unconditional promises to give which are due in future years are recorded at their net realizable value.

The Association uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Government Contracts

Grants and government contract revenue is recognized when earned. Grants receivable representing the difference between award amounts and amounts received are offset by a liability entitled unearned grant funds, to the extent such grants have not been earned.

Contributed Services

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The Association receives a significant amount of donated services from unpaid volunteers who assist in certain grants. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under SFAS No. 116.

Membership Dues and Activities

Membership dues are recognized using the straight-line method over one year. Unearned membership dues are shown as a current liability. The membership period is based upon a member's anniversary date.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates made by management.

Income Taxes

The Association is a not-for-profit organization that is exempt from income taxes on income other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code. The Association is not considered a private foundation.

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005**

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Non-interest bearing:		
Cash in operating account	\$ 77,370	\$ 39,937
Interest bearing:		
UBS Paine Webber Money Market Funds	<u>85,856</u>	<u>36,067</u>
	<u>\$ 163,226</u>	<u>\$ 76,004</u>

Marketable securities are recorded at market value at June 30, 2006 and 2005 as follows:

	<u>2006</u>	<u>2005</u>
Vanguard Group (restricted):		
Intermediate – Term Corporate Fund	\$ 83,636	\$ 85,060
Wellington Fund	818,501	785,871
Index Trust – 500 Portfolio	<u>511,791</u>	<u>510,274</u>
	1,413,928	1,381,205
Less: unrestricted funds	<u>(92,559)</u>	<u>(103,640)</u>
Investments - restricted	<u>\$1,321,369</u>	<u>\$1,277,565</u>

The Association's investment policy generally requires 50% - 80% of equity investments and 15% - 50% in fixed income securities. Short-term securities should represent 0% - 20%.

Investment income from these investments for the years ended June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Unrealized gains on investments	\$ 49,146	\$ 40,885
Dividends/interest	<u>65,866</u>	<u>59,801</u>
	<u>\$ 115,012</u>	<u>\$ 100,686</u>

Restricted Cash and Investments

The Association has deposited substantially all of the permanently restricted contributions into a diversified mutual fund group of investments. Earnings or losses on such assets are reflected as an increase or decrease in unrestricted or temporarily restricted net assets based on the intention of the donor. However, earnings on the permanently restricted net assets are subject to the following investment policy.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Restricted Cash and Investments (Continued)

The Association's Board has established an investment policy to limit the amount of earnings that can be withdrawn during the year up to 5% of the total market value at the beginning of the fiscal year. The cumulative withdrawals will be evaluated and adjusted in the fifth year for any market fluctuations.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Office furniture and equipment	\$ 21,417	\$ 21,417
Computer equipment	19,291	19,291
Vehicles	<u>20,577</u>	<u>-</u>
	61,285	40,708
Accumulated depreciation	<u>(36,202)</u>	<u>(32,999)</u>
	<u>\$ 25,083</u>	<u>\$ 7,709</u>

NOTE 4 – NOTE PAYABLE

Note payable consists of an installment note which provides for interest at 9.89%. Principal and interest are due in monthly installments of \$382. The note is secured by a vehicle.

Scheduled maturities of the note payable are as follows :

2007	\$ 2,685
2008	2,963
2009	3,270
2010	3,608
2011	3,981
Thereafter	<u>3,857</u>
	<u>\$ 20,364</u>

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005**

NOTE 5 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of investment income from the Association's endowment funds and amounts designated for endowment expenses.

Permanently restricted net assets consist of donations restricted for endowment investments to be held indefinitely, the income from which is unrestricted or temporarily restricted based on donor stipulations.

NOTE 6 – GRANTS

Grants and endowments may require fulfillment of certain conditions as set forth in the instruments of the grant. Failure to fulfill these conditions, or in the case of endowments, failure to continue to fulfill them, could result in the return of the monies to grantors.

During fiscal 2006, the Association was the recipient of two federal grants of \$355,000 and \$454,000, respectively. The grants are to be used for advancement of museum staff knowledge and skills of museum operation. Limited amounts were received and expended under the grants during fiscal 2006.

NOTE 7 – PENSION PLAN

The Association maintains a defined contribution retirement plan. Employees with two years of service and over the age 25 are eligible to participate. Eligible employees elect a 5% salary reduction and the Association contributes 7.5% of covered salaries. The plan is part of the Teachers College Retirement Equities Fund ("TIAA-CREF") program that consists of an annuity and is fully vested to the employee. Total contributions by the Association amounted to \$13,134 and \$15,115 for the years ended June 30, 2006 and 2005, respectively.

NOTE 8 – LEASING AND SERVICE ARRANGEMENTS

On May 8, 1998, the Association entered into an operating lease agreement effective July 1, 1998, for the rental of office space. The lease includes two options to extend the lease for three-year periods with a fixed increase in rent. The lease was renewed in 2006 and expires June 30, 2007.

The Association has also entered into operating leases for certain office equipment.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005**

NOTE 8 – LEASING AND SERVICE ARRANGEMENTS (Continued)

The future minimum lease payments are as follows for the years ending June 30:

2007	\$ 51,060
2008	10,489
2009	4,164
2010	4,164
2011	<u>1,388</u>
	<u>\$ 71,265</u>

Rent expense for the years ended June 30, 2006 and 2005 totaled \$50,847 and \$48,622, respectively. Such expenses have been reported in various classifications based upon the related functional use.

During September 2002, the Association signed a service agreement with a consulting group for the development and customization of a database software program. The program remains the property of the consulting group, but is utilized by the Association in conducting its programs. The agreement also requires the consulting group to provide web based services, and routine maintenance for three years. Fees for such services are based on various terms as specified in the service agreement. Additional services are billed based on an hourly rate. The agreement will automatically renew yearly thereafter until terminated. If the agreement is terminated prior to the initial term or renewal term, and without a material breach that is not remedied timely, the Association is liable for the remainder of the term. Fees for such services totaled \$37,983 for the year ended June 30, 2006.

In May 2005, the Association signed a service agreement to operate and support the Association's career services on their internet website for a period of three years. Fees for such services will be 50% of revenue collected, less 50% of credit card charges.

NOTE 9 – INCOME TAXES

The Association had no unrelated business taxable income during the years ended June 30, 2006 and 2005.

NOTE 10 – CONCENTRATIONS

Financial instruments that potentially subject the Association to concentrations of credit risk consist of investments held by a broker and a mutual fund company.

Also, the Association maintains a bank account at one financial institution. The balance at times, may exceed federally insured limits. The Association has not experienced any losses in the account. Management believes the Association is not exposed to any significant credit risk related to cash.

**AMERICAN ASSOCIATION FOR STATE
AND LOCAL HISTORY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005**

NOTE 11 – COMMITMENTS

The Association entered into an agreement dated March 2006 for a hotel and meeting space commitment for the annual meeting to be held September 2007 in Atlanta, Georgia. In the event of cancellation, the Association shall pay up to 100% of minimum room and banquet revenue.

The Association entered into an agreement dated November 2004 for a space commitment for the annual meeting to be held September 2006 in Phoenix, Arizona. In the event of cancellation, the Association will be required to pay the entire contract rate within twenty-four months of the event. However, if the space is contracted to another party, the amount received from the other party will be used to offset the amount owed by the Association. No significant liability resulted from this commitment.

The Association entered into an agreement dated December 2004 for a hotel commitment for the annual meeting to be held September 2006 in Phoenix, Arizona. In the event of cancellation, the Association shall pay up to 80% of rooms' rental minimum if cancellation occurs within 179 days or less of the event date. No significant liability resulted from this commitment.

The Association has agreed to provide certain survey services relating to performance measurement pilot programs under contracts with various history museums. Such services are generally conducted with another nonprofit organization under a cost/service agreement. Revenue will be recognized as services are performed. Performance measurement revenue included in Education and Training for the years ended June 30, 2006 and 2005 approximates \$40,000 and \$60,000, respectively. Amounts reflected in the accompanying Statement of Financial Position for ongoing contracts at June 30, 2006 includes accounts receivable of \$61,917 and unearned revenue of \$71,664. Similar amounts at June 30, 2005 includes accounts receivable of \$80,917 and unearned revenue of \$44,333.

The Association has entered into a deferred compensation arrangement with a key executive that provides for annual deferrals of \$10,000 per year through July 2010.