NATIONAL MILITARY FAMILY ASSOCIATION

AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

- CONTENTS -

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Governors
National Military Family Association
Alexandria, Virginia

Report on Financial Statements

We have audited the accompanying financial statements of the National Military Family Association, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

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

To the Board of Governors
National Military Family Association

Auditor's Responsibility – Continued

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Military Family Association as of December 31, 2017, and the changes in its net assets and its 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

We have previously audited the National Military Family Association's financial statements as of and for the year ended December 31, 2016, and our report dated July 17, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Frye & Company, CPAs

Frye & Company, CPAs
Manassas, Virginia
July 24, 2018

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2017
(*WITH 2016 COMPARATIVE TOTALS*)

	2017	2016
Assets		
Cash and cash equivalents	$ 2,743,996	$ 1,444,099
Certificates of deposit	438,180	680,863
Marketable securities	4,750,627	4,471,718
Accounts receivable, net	15,625	-
Prepaid expenses and other	81,205	86,806
Property and equipment:		
Furniture and equipment	254,484	238,574
Website and software	154,017	154,017
Property and equipment, at cost	408,501	392,591
Accumulated depreciation	(360,120)	(304,268)
Property and equipment, net	48,381	88,323
Total Assets	$ 8,078,014	$ 6,771,809

	2017	2016
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 39,107	$ 38,705
Accrued salaries and related taxes	42,857	49,225
Accrued vacation	107,643	100,238
Deferred grant and other income	881,515	4,135
Deferred rent liability	36,519	51,217
Total liabilities	1,107,641	243,520
Net assets		
Unrestricted	6,459,451	6,156,270
Temporarily restricted	510,922	372,019
Total net assets	6,970,373	6,528,289
Total Liabilities and Net Assets	$ 8,078,014	$ 6,771,809

See accompanying auditors' report and notes to financial statements.

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENT OF ACTIVITIES
& CHANGE IN NET ASSETS

YEAR ENDED DECEMBER 31, 2017
(*WITH 2016 COMPARATIVE TOTALS*)

	2017			
	Unrestricted	Temporarily Restricted	Total	2016
Revenue and Support				
Contributions and grants	$ 1,561,023	$ 1,966,597	$ 3,527,620	$ 3,977,855
Membership dues	602,350	-	602,350	393,296
In-kind donations	130,624	-	130,624	139,495
Royalties and other	51,547	-	51,547	53,201
Investment income	617,659	-	617,659	260,224
Net assets released from restriction:				
Scholarships and program grants	1,827,694	(1,827,694)	-	-
Total revenue and support	4,790,897	138,903	4,929,800	4,824,071
Expense				
Program services:				
Strengthening and healing families	1,975,183	-	1,975,183	2,844,662
Engaging communities	1,306,111	-	1,306,111	1,167,685
Creating change: policy and awareness	425,581	-	425,581	419,674
Total program services	3,706,875	-	3,706,875	4,432,021
Supporting services				
Management and general	170,896	-	170,896	210,591
Fundraising and membership	609,945	-	609,945	641,814
Total supporting services	780,841	-	780,841	852,405
Total expense	4,487,716	-	4,487,716	5,284,426
Change in Net Assets	303,181	138,903	442,084	(460,355)
Net assets, beginning of year	6,156,270	372,019	6,528,289	6,988,644
Net Assets, End of Year	$ 6,459,451	$ 510,922	$ 6,970,373	$ 6,528,289

See accompanying auditors' report and notes to financial statements.

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017
(*WITH 2016 COMPARATIVE TOTALS*)

	2017								2016
	Program Services				Supporting Services				
	Strengthening and Healing Families	Engaging Communities	Creating Change: Policy and Awareness	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	Total Expenses	Total Expenses
Expenses									
Salaries and benefits	$ 528,161	$ 768,579	$ 345,406	$ 1,642,146	$ 143,484	$ 420,639	$ 564,123	$ 2,206,269	$ 2,438,515
Military spouse scholarships	552,039	-	-	552,039	-	-	-	552,039	615,383
Camp and family retreat contracts	540,014	-	9,075	549,089	-	-	-	549,089	1,177,968
Family program consultants	22,587	169,795	99	192,481	3,263	31,275	34,538	227,019	41,959
Website and communication services	51,013	99,823	4,459	155,295	2,366	23,960	26,326	181,621	173,461
Promotional materials and advertising	80,737	98,171	40	178,948	-	1,123	1,123	180,071	139,642
Rent and office maintenance	67,923	44,915	14,635	127,473	5,877	20,975	26,852	154,325	146,217
Legal, bank fees, and accounting	48,893	31,038	10,102	90,033	4,057	29,484	33,541	123,574	118,219
IT equipment and support	30,359	20,075	6,541	56,975	2,627	9,374	12,001	68,976	76,904
Publications, dues, and subscriptions	3,597	12,554	8,848	24,999	1,109	41,446	42,555	67,554	36,469
Travel	20,101	16,066	5,803	41,970	2,965	4,840	7,805	49,775	111,954
Postage and mailing services	5,285	2,689	240	8,214	422	19,024	19,446	27,660	49,851
Training, conferences, and meetings	1,283	1,958	15,701	18,942	2,724	857	3,581	22,523	60,755
Insurance	6,751	4,464	1,455	12,670	584	2,085	2,669	15,339	14,742
Supplies	2,575	1,067	190	3,832	218	581	799	4,631	11,149
Lobbying expenditures	-	-	-	-	-	-	-	-	-
Subtotal	1,961,318	1,271,194	422,594	3,655,106	169,696	605,663	775,359	4,430,465	5,213,188
Depreciation and amortization	13,694	34,804	2,950	51,448	1,185	4,229	5,414	56,862	71,238
Loss on disposition of property	171	113	37	321	15	53	68	389	-
Total Expenses	$ 1,975,183	$ 1,306,111	$ 425,581	$ 3,706,875	$ 170,896	$ 609,945	$ 780,841	$ 4,487,716	$ 5,284,426

See accompanying auditors' report and notes to the financial statements.

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017
(*WITH 2016 COMPARATIVE TOTALS*)

	2017	2016
Cash Provided (Used) by Operating Activities		
Change in net assets	$ 442,084	$ (460,355)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	56,862	71,238
Realized loss (gain) on sales of marketable securities	(75,222)	(51,801)
Unrealized loss (gain) on marketable securities	(302,537)	(40,095)
Donated marketable securities	(25,889)	(45,616)
Loss on disposition of property	389	-
Changes in assets and liabilities:		
Accounts receivable	(15,625)	100,000
Prepaid expenses and other	5,601	2,336
Accounts payable and accrued expenses	402	(11,621)
Accrued salaries and related taxes	(6,368)	8,702
Accrued vacation	7,405	21,116
Deferred grant and other income	877,380	(201,127)
Deferred rent liability	(14,698)	(10,455)
Total adjustments	507,700	(157,323)
Net cash provided (used) by operating activities	949,784	(617,678)
Cash Provided (Used) by Investing Activities		
Maturities of certificates of deposits	254,719	889,067
Purchases of certificates of deposits	(12,036)	(788,848)
Sales of marketable securities	1,890,914	1,605,139
Purchases of marketable securities	(1,766,175)	(1,745,335)
Purchases of property and equipment	(17,309)	(11,253)
Net cash provided (used) by investing activities	350,113	(51,230)
Cash Provided (Used) by Financing Activities		
Principal advances and repayments on debt	-	-
Net cash provided (used) by financing activities	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	1,299,897	(668,908)
Cash and cash equivalents, beginning of period	1,444,099	2,113,007
Cash and Cash Equivalents, End of Period	$ 2,743,996	$ 1,444,099
Supplemental Cash Flows Information:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Supplemental Non-Cash Investing and Financing Activities:		
Contributed services, supplies	$ 104,735	$ 93,879
Donated marketable securities	$ 25,889	$ 45,616

See accompanying auditors' report and notes to financial statements.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Note A – Organization and Activities

Association: The National Military Family Association (NMFA, referred to as the Association) was incorporated in the State of Maryland in December 1969 as a non-stock, not-for-profit organization. The Association was organized to identify and resolve issues of concern to military families and to fight for benefits and programs that strengthen and protect uniform service families. The Association is also recognized as a charitable organization and is primarily supported by charitable contributions and grants. The Association is governed by an elected Board of Governors and has approximately 34,500 concerned and caring members.

Note B – Summary of Significant Accounting Policies

Basis of Accounting & Presentation: The Association prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when obligations are incurred. The financial statements include certain prior-year summarized comparative information in total and not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements as of and for the year ended December 31, 2016, from which the summarized information was derived. Certain prior year information was reclassified to adhere with the current financial statement presentation.

Income Tax Status: The Association obtained a favorable tax determination letter from the Internal Revenue Service (IRS) in June 1983 setting forth the Association's tax exemption under Internal Revenue Code (IRC) Section 501(c)(3). The Association is further classified as a publicly supported charitable organization under IRC Section 509(a)(2). Accordingly, the Association is exempt from the payment of income taxes on its exempt function activities; however, any business type activities unrelated to the Association's tax exemption are subject to applicable federal and state income taxes. The Association reported no unrelated business activities during the years ended December 31, 2017 and 2016. Although the Association has not received any notice of intent to examine its tax returns, the Association's tax returns remain subject to examination by tax authorities pursuant to various statutes of limitations.

Cash and Cash Equivalents: For financial statement purposes, the Association considers highly liquid debt instruments with maturities of three months or less, including certain money market funds, to be cash equivalents. As of December 31, 2017 and 2016, the Association had approximately $1,485,000 and $437,900, respectively, in money market funds that are included as cash equivalents in the accompanying financial statements. The Association also reported approximately $25,100 and $27,600, respectively, in money market funds reported as components of marketable securities as of December 31, 2017 and 2016 given the Association's ability and intent for these funds to be reinvested within these portfolios.

Note B – Summary of Significant Accounting Policies – Continued

Certificates of Deposit: As of December 31, 2017 and 2016, the Association had approximately \$438,200 and \$680,900, respectively, invested in certificates of deposit held in several credit unions. The certificates of deposit are reported at fair value and currently have original maturities of 30 months. The certificates mature during the year ending December 31, 2018 and earn interest at annual rates of approximately 2.5%. The certificates cost approximates their fair value.

Marketable Securities: The Association's marketable securities consist principally of investments in money market funds, certificates of deposit, mutual bond and equity funds, and corporate debt and equity securities that are held for investment purposes. As part of the Association's investment strategy, certain money market funds are held within the investment portfolio with the intent for these amounts to be available for reinvestment within the portfolios. Marketable securities are reported at fair value, with realized interest and dividend, capital gains or losses, and unrealized gain or losses included as components of investment income.

Accounts Receivable: The Association's receivables consist primarily of sponsorships, pledges, and bequests. Accounts receivables are recognized when an unconditional promises-to-give from a donor or decedent is both determinable and measurable by the Association. The Association reports its accounts receivable at their net realizable value by periodically reviewing an aging of its accounts receivable for collection purpose and to evaluate the adequacy of the allowance for doubtful accounts. As of December 31, 2017 and 2016, the Association determined that an allowance for doubtful accounts was unnecessary, and no significant bad debts expense was recognized during the years then ended.

Prepaid Expenses and Other Assets: The Association's prepaid expenses and other assets consist principally of prepaid insurance, postage, service agreements, and refundable security deposits.

Property and Equipment: The Association capitalizes property and equipment acquisitions at cost or estimated fair value at the time of donation and reports property and equipment net of accumulated depreciation. The Association depreciates its property and equipment using the straight-line method over the estimated useful lives of 3 to 5 years. Depreciation and amortization expense was approximately \$56,900 and \$71,200, respectively, for the years ended December 31, 2017 and 2016. Expenditures for repairs and maintenance that do not extend the useful life of an asset, supplies, and de minimis items are expensed as incurred.

Deferred Rent Liability: The Association recognizes rent expense on its long-term operating leases on a straight-line basis. A deferred rent liability is reflected for the effects of rent escalations and the difference between actual rental payments and the straight-line amortization. The deferred rent liability was approximately \$36,500 and \$51,200, respectively, as of December 31, 2017 and 2016, and rent and occupancy expense was approximately \$154,300 and \$146,200, respectively, for the years then ended.

Note B – Summary of Significant Accounting Policies – Continued

Net Assets: The Association classifies its net assets based upon the existence or lack of donor-imposed restrictions. In order to account for such restrictions or limitations on the use of its resources, the Association classifies its net assets as unrestricted, temporarily restricted, or permanently restricted. For financial statement presentation purposes, the Association classifies its net assets as follows:

Unrestricted – represents unrestricted net assets that are available to support activities of the Association at the discretion of its management and Board of Governors. The Board may internally designate portions of the unrestricted net assets for certain purposes.

Temporarily Restricted – represents net assets whose use is limited by donor-imposed restrictions that either expire with the passage of time or must be used for specific purposes. Temporarily restricted net assets consist primarily of unexpended amounts contributed and restricted by donors for various youth initiatives, and scholarships and grants awards.

Permanently Restricted – represents net assets whose donor stipulated that the original donation be held in perpetuity by the Association with any interest earned upon the corpus restricted for certain charitable functions or educational purposes, such as scholarships. The Association reported no permanently restricted net assets as of December 31, 2017 and 2016.

Contributions and Donations: Contributions and donations are recorded when received or when the unconditional promise-to-give is known. They are recorded by the Association as increases in unrestricted, temporarily restricted, or permanently restricted net assets based upon the existence or lack of donor-imposed restrictions. Any temporarily restricted amounts received and released from restriction in the same reporting period are reported as unrestricted support. Donated goods or contributed services meeting the requirements for recognition in that they create or enhance non-financial assets or are services that require specialized skills, are provided by individuals who possess such skills, and would typically need be purchased if not donated are reported at fair value at the time of donation. Restricted resources in which the Association meets the donor's restriction during the fiscal year are reflected as net assets released from restriction in the statement of activities and change in net assets. During the years ended December 31, 2017 and 2016, the Association reported in-kind donations and contributed services valued at approximately $130,600 and $139,500, respectively, for donated securities, software licenses, program costs, and professional and consulting services.

Advertising Costs: The Association expenses advertising costs as incurred. During the years ended December 31, 2017 and 2016, the Association reported approximately $180,100 and $139,600, respectively, in promotional materials and advertising expenses. Fundraising and membership development costs, including allocable overhead, totaled approximately $609,900 and $641,800, respectively, during the years ended December 31, 2017 and 2016.

Note B – Summary of Significant Accounting Policies – Continued

Functional Allocation of Expenses: The Association has summarized the cost of providing its various programs and activities on a functional basis in the accompanying financial statements. Accordingly, certain expenses were allocated to the programs and supporting services benefited.

Fair Value Measurements: The Association established a reporting framework for measuring and disclosing fair value measurements. Fair value measurement disclosures are required for assets and liabilities measured and reported at fair value in the financial statements. Management uses a fair value measurement hierarchy based upon the lowest level of any input that is significant to the measurement with Level 3 being the lowest level of recognition. Management also attempts to maximize the use of observable inputs (Level 1 and 2) and minimize unobservable inputs (Level 3). Accordingly, the Association classifies its investments in marketable securities in the following categories:

Level 1 – valuation methodology based upon unadjusted quoted prices for identical assets or liabilities traded in an active market that the Association has the ability to access;

Level 2 – valuation methodology based upon unadjusted quoted prices for similar assets and liabilities traded in active markets or identical or similar assets and liabilities in inactive markets, observable market inputs for assets and liabilities not traded in active markets, observable market inputs derived or corroborated principally correlation or other means, or Level 1 instruments where there is a contractual restriction; and

Level 3 – valuation methodology is unobservable and significant to the fair value measurement.

As of December 31, 2017 and 2016, the Association determined that its investments in marketable securities would generally be classified as Level 1 and Level 2 financial instruments as fair value is generally determined based upon quoted market prices for identical assets or based upon unadjusted quoted prices for similar assets or readily available market inputs as detailed above. Disclosures about estimated fair values and fair value measurements were determined by the Association based upon pertinent market data and other information available as of December 31, 2017 and 2016. Considerable judgment may be necessary to interpret market and financial data and to develop fair value measurements in certain circumstances, and the Association's estimates of fair value may not be indicative of amounts realized at disposition.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates are employed by management in determining the functional allocation of expenses. Accordingly, actual results could differ from those estimates and the difference could be material.

Note C – Concentrations of Risk

Cash and Cash Equivalents: Financial instruments that subject the Association to potential concentration of risk consist of deposits with banking institutions that exceed the Federal insurance available for such accounts. As of December 31, 2017 and 2016, the Association had approximately $2,005,200 and $1,308,000, respectively, held in depository accounts in excess of federal insurance. The uninsured balance generally changes daily as cash balances fluctuate.

Marketable Securities: The Association maintains two investment portfolios with national brokerages which are members of the Securities Investor Protection Corporation (SIPC). The investment portfolios are not insured against losses and subject to market fluctuations and risk of loss. As of December 31, 2017 and 2016, the Association had approximately $4,750,600 and $4,471,700, respectively, invested in portfolios with the two national brokerages.

Revenue and Support: The Association receives a significant amount of support in the form of grants and donations from corporations, other nonprofit organizations, private foundations, and concerned individuals. During the years ended December 31, 2017 and 2016, the Association's largest contributor paid donations totaling approximately $500,000 (or 10%) and $1,250,000 (or 26%), respectively, of the Association's total revenue and support. Membership dues, which are also contributory support, totaled approximately $602,400 (or 12%) and $393,300 (or 8%) (or 7%), respectively, of the Association's total revenue and support for the years ended December 31, 2017 and 2016. The Association relies heavily upon the support of its donors and members.

Note D – Marketable Securities

The Association reports its investments in equity securities with readily determinable fair value and all debt securities at fair value in the accompanying financial statements, with any realized and unrealized gains or losses included as a component of investment income. The Association's marketable securities consist of the following as of December 31, 2017 and 2016:

	2017		2016	
	Cost	Market	Cost	Market
Marketable securities:				
Money market funds	$ 25,109	$ 25,109	$ 27,566	$ 27,566
Certificates of deposit	438,180	438,180	680,863	680,863
Mutual bond/equity funds	3,761,445	4,307,314	3,843,384	4,080,919
Exchange traded funds	318,243	321,934	225,492	246,799
Corporate equities	39,617	96,270	71,600	116,434
	$ 4,582,594	$ 5,188,807	$ 4,848,905	$ 5,152,581

Note D – Marketable Securities – Continued

Investment income consists of the follow for the years ended December 31, 2017 and 2016:

	2017	2016
Investment income:		
Realized interest and dividends	$ 239,900	$ 168,328
Net realized gain (loss) on sales	75,222	51,801
Net unrealized gain (loss)	302,537	40,095
	$ 617,659	$ 260,224

Note E – Fair Value Measurements

The Association's investments in marketable securities are reported at fair value with money market funds, mutual funds, and corporate equities are based upon the closing price reported in active markets on which the securities are traded. The certificates of deposits are valued based upon observable market inputs for similar securities, including valuation models based upon prices paid for similar securities with similar yields from issuers with similar credit ratings. As of December 31, 2017 and 2016, the Association's fair value measurements consist of the following:

December 31, 2017:	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 25,109	$ 25,109	$ -	$ -
Certificates of deposit	438,180	-	438,180	-
Mutual bond/equity funds	4,307,314	4,307,314	-	-
Exchange traded funds	321,934	321,934	-	-
Corporate equities	96,270	96,270	-	-
Marketable securities	$ 5,188,807	$ 4,750,627	$ 438,180	$ -

December 31, 2016:	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 27,566	$ 27,566	$ -	$ -
Certificates of deposit	680,863	-	680,863	-
Mutual bond/equity funds	4,080,919	4,080,919	-	-
Exchange traded funds	246,799	246,799	-	-
Corporate equities	116,434	116,434	-	-
Marketable securities	$ 5,152,581	$ 4,471,718	$ 680,863	$ -

Note F – Accounts Receivables

The Association's accounts receivables consist primarily of sponsorships, pledges, and bequest receivables due within the next reporting period (i.e., year ending December 31, 2018). Accounts receivables are recognized when an unconditional promises-to-give from a donor or decedent is both determinable and measurable by the Association. The Association reports its accounts receivable at their net realizable value by periodically reviewing an aging of its accounts receivable for collection purposes and to evaluate an allowance for doubtful accounts. The Association also discounts any pledge or bequest receivable using a present value discount when the pledge or bequest receivables are due over an extended period of time. As of December 31, 2017 and 2016, the Association's receivable consists principally of outstanding grants and sponsorships. The Association determined that an allowance for doubtful accounts was unnecessary, and no significant bad debts expense was recognized the years then ended.

Note G – Deferred Revenue

The Association evaluates its grant and other funding to determine if grants are unconditional promises-to-give and thus, accounted for as contributions and either earmarked as unrestricted, temporarily restricted, or permanently restricted revenue and support. In situations in which the grants require significant stipulations, including the refunding of unspent funds, the Association treats the grants as conditional promises-to-give in which revenue is not recognized until the grantor's stipulations are substantially met. The Association also defers lease incentives over the term of the lease. As of December 31, 2017 and 2016, the Association reported deferred revenue associated with its grants and leases totaling approximately $881,500 and $4,100, respectively.

Note H – Temporarily Restricted Net Assets

The Association temporarily restricted net assets consist of various funds earmarked for youth initiatives, scholarships and grants, and memorial award programs. As of December 31, 2017 and 2016, the Association's temporarily restricted net assets consist of the following:

	2017	2016
Temporarily restricted:		
Educational scholarships	$ 388,249	$ 258,111
Youth initiatives	87,673	-
Leadership luncheon	35,000	25,000
Personnel and other	-	88,908
	$ 510,922	$ 372,019

Note I – Endowment Funds

Endowment Funds: The Association's endowments consist of two funds established to provide financial stability and support for the Association and its scholarship and grant programs. Endowment funds may be created either through internal designations by the Board of Governors or from contributions restricted by donors for the establishment of the endowments with the intent to provide ongoing support and financial stability. As such, endowment funds are reflected in board designated, temporarily restricted, or permanently restricted net assets based upon whether the endowment fund was established by internal designations by the Board of Governors or from donor restricted contributions and gifts. The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift at the time of donation for the donor-restricted funds absent any explicit donor stipulation to the contrary. As such, the Association classifies as temporarily restricted or permanently restricted net assets the original value of restricted donations, the original value of additional donations to the fund, and accumulations of the fund in accordance with the original donors' gift instruments. Additionally, the Board of Governors may report earnings from permanently restricted funds as temporarily restricted net assets if so directed by the donor and unexpended as of the end of the reporting period. Additionally, the Board of Governors may also internally earmark earnings from temporarily restricted net assets as board designed funds. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate internally designated or donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

Investment Strategies: The Association has adopted investment and spending policies, approved by the Board of Governors, for endowment and other investment assets in an attempt to provide for a predictable stream of funding in support of the endowment purposes while preserving capital and maintaining the purchasing power of the endowment fund assets over the long-term. Accordingly, the investment policy seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, with acceptable risk as set forth in the investment policy approved by the Board of Governors. Accordingly, the investment policy allows for a well-diversified investment portfolio which may include cash and money market funds to provide adequate liquidity, and certificate of deposits, government and corporate bonds, mutual bond and equity funds, and corporate debt and equity securities that are intended to manage risk and inflation and provide for an overall reasonable market return. As such, the Association expects its endowment assets to produce an average rate of return commensurate with market returns over the long-term for similar type investments. Investment risk is determined by overall investment assets and allocations and is designed to manage overall risk with preservation of capital paramount.

Note I – Endowment Funds – Continued

Spending Policies: The Association's spending policy in regard to the endowment funds allows for the expenditure of funds to provide for the operation and maintenance of the endowments as directed by the donor and approved by the Board of Governors. In establishing its spending policies, the Association considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which may be required to be held in perpetuity as permanently restricted net assets as directed by the original donor, and the possible effects of risk, inflation, and other economic matters. Annually, the Association awards scholarships and grants to be funded from the endowment funds during the budget preparation. The Association expects its spending policies to allow its endowment funds to grow over time, which is consistent with the Association's objective to maintain the purchasing power of the endowment funds as well as provide additional growth from investments and new gifts. The Association's endowment fund balances and change in endowment fund balances consist of the following as of and for the years ended December 31, 2017 and 2016:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
December 31, 2017:				
Operating reserves	$ 4,046,554	$ -	$ -	$ 4,046,554
Scholarship funds	704,073	-	-	704,073
	$ 4,750,627	$ -	$ -	$ 4,750,627
Endowment fund balances as of beginning of year	$ 4,471,718	$ -	$ -	$ 4,471,718
Contributions and other	25,889	-	-	25,889
Investment income	604,303	-	-	604,303
Expenditures and other	(351,283)	-	-	(351,283)
Endowment fund balances as of end of year	$ 4,750,627	$ -	$ -	$ 4,750,627
December 31, 2016:				
Operating reserves	$ 3,856,864	$ -	$ -	$ 3,856,864
Scholarship funds	614,854	-	-	614,854
	$ 4,471,718	$ -	$ -	$ 4,471,718

Note I – Endowment Funds – Continued

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
Endowment fund balances as of beginning of year	$ 4,194,010	$ -	$ -	$ 4,194,010
Contributions and other	45,616	-	-	45,616
Investment income	243,365	-	-	243,365
Expenditures and other	(11,273)	-	-	(11,273)
Endowment fund balances as of end of year	$ 4,471,718	$ -	$ -	$ 4,471,718

Note J – Retirement Plan

The Association maintains a 403(b) tax deferred retirement plan for employees meeting certain minimal requirements. Plan participants may make voluntary tax-deferred contributions to the retirement plan up to the maximum amount allowed by the Internal Revenue Code (IRC). The Association provides eligible participants matching contributions of $50 per month or fraction thereof. During the years ended December 31, 2017 and 2016, the Association incurred retirement plan expenses, including matching contributions and plan administrative costs, totaling approximately $17,200 and $16,700, respectively.

Note K – Operating Leases

The Association leases office space and equipment under various non-cancelable operating leases. The lease agreements have original terms that range from 36 to 66 months and expire at various times through the years ending December 31, 2019 - 2020. The leases require minimum monthly rental payments totaling approximately $14,400 as of December 31, 2017. The Association is also responsible for its proportionate share of operating costs, maintenance, and any applicable taxes and insurance. The lease for office space requires annual rent escalation; however, the Association recognizes rent expense on the long-term operating leases on a straight-line basis. Accordingly, a deferred rent liability is reflected for the effects of rent escalations and the difference between actual rental payments and the straight-line amortization. The deferred rent liability was approximately $36,500 and $51,200, respectively, as of December 31, 2017 and 2016, and rent expense was approximately $154,300 and $146,200, respectively, for the years then ended, including office equipment rentals.

Note K – Operating Leases – Continued

The approximate future minimum lease payments required under the agreements are as follows for the years ending December 31:

2018	$ 170,200
2019	132,100
2020	3,300
	$ 305,600

Note L – Commitments and Contingencies

Operating Contingencies: The Association sponsors various youth programs and summer camps that have inherit risk associated with such activities. Although the Association only financially sponsors the youth programs or may provide grants for children to attend, the Association purchases insurance coverage with respect to the Association's sponsorship of such activities. Additionally, each camp is required to irrevocably promise and agree to release, discharge, indemnify and hold harmless the Association, its agents, officers, directors, and employees, from any and all claims, causes of action, or demands, of any nature or cause, including costs and attorney's fees incurred by the Association in connection with same, arising out of any acts or omissions arising out of or relating to this contract or the subject matter hereof. Each camp is also required to provide the Association with proof of insurance. Management is currently unaware of any pending or threatened litigation, claims, or assessment and accordingly, the accompanying financial statements reflect no accruals for any such potential loss contingencies. No assurance can be provided given the nature of this uncertainty or regarding any future litigation, claims, or assessments.

Disputes and Disagreements: The Association is, from time to time, involved in various legal actions, claims or disputes arising from the normal course of business that, in the opinion of management, will not have a significant impact upon the Association's financial condition or activities. As part of the Association's risk management and to ensure the adequacy of coverage, the Association annually reviews its insurance coverage. Management is unaware of any significant pending or threatened litigation, claims or assessments as of December 31, 2017 and 2016. Accordingly, the Association has not accrued any loss contingency with respect to any such matters. No assurance can be provided given the nature of this uncertainty or regarding any such legal actions, claims or disputes.

Note M – Income Tax Considerations

Income Tax Status: The Association obtained a favorable tax determination letter from the Internal Revenue Service (IRS) in June 1983 setting forth the Association's tax exemption under Internal Revenue Code (IRC) Section 501(c)(3) as a publicly supported charitable organization under IRC Section 509(a)(2). Accordingly, the Association is exempt from the payment of income taxes on its exempt function activities. Any unrelated business type activities would be subject to taxation; however, the Association reported no unrelated business activities during the years ended December 31, 2017 and 2016. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

Tax Contingencies: Although the Association has not received any notice of intent to examine its tax returns, the Association's tax returns remain subject to examination or review by tax authorities pursuant to various statutes of limitations. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and to recognize a tax liability (or asset) if the Association has taken uncertain tax positions that would more likely than not be sustained upon examination. Management is unaware of any significant uncertain tax positions arising during the years ended December 31, 2017 and 2016 that are more likely than not to be sustained should the Association's tax returns be subject to examination. Accordingly, the Association also did not incur or accrue any significant penalties or interest associated with uncertain tax positions during the years ended December 31, 2017 and 2016.

Note N – Subsequent Events Evaluation

Management has evaluated subsequent events for the period January 1, 2018 through July 24, 2018, the date on which these financial statements were available to be issued and during this period, there were no subsequent events that required recognition or disclosure in the accompanying financial statements.