



**NATIONAL ASSOCIATION OF INSURANCE
AND FINANCIAL ADVISORS, SUBSIDIARY
AND AFFILIATE**

**Consolidated Financial Statements and
Supplemental Consolidating Information**

*For the Year Ended August 31, 2018
(With Summarized Information as of August 31, 2017)*



**and
Report Thereon**



**NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE**

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For the Year Ended August 31, 2018**

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
National Association of Insurance and
Financial Advisors, Subsidiary and Affiliate

We have audited the accompanying consolidated financial statements of the National Association of Insurance and Financial Advisors (NAIFA), Subsidiary and Affiliate (collectively referred to as the Association), which comprise the consolidated statement of financial position as of August 31, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of August 31, 2018, 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.

Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited the Association's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the supplemental consolidating statements of financial position and activities is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
December 11, 2018

**NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
August 31, 2018**

(With Summarized Financial Information as of August 31, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 1,114,091	\$ 2,153,815
Accounts receivable, net of allowance for doubtful accounts of \$15,000 for 2018 and 2017	25,661	495,317
Prepaid expenses	793,684	345,463
Investments	4,104,644	3,317,775
Deposits and other assets	481,199	298,100
Net property and equipment	792,860	576,374
TOTAL ASSETS	\$ 7,312,139	\$ 7,186,844
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,388,344	\$ 1,691,961
Deferred dues	1,936,514	2,046,886
Deferred gain on sale-leaseback	1,724,090	2,074,752
Other deferred revenue	1,083,337	441,596
Accrued medical benefits	42,363	80,654
TOTAL LIABILITIES	6,174,648	6,335,849
Net Assets		
Unrestricted	1,002,916	709,395
Temporarily restricted	134,575	141,600
TOTAL NET ASSETS	1,137,491	850,995
TOTAL LIABILITIES AND NET ASSETS	\$ 7,312,139	\$ 7,186,844

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE**

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2018
(With Summarized Financial Information for the Year Ended August 31, 2017)**

	2018	2017
CHANGE IN UNRESTRICTED NET ASSETS:		
REVENUE AND OTHER SUPPORT		
Dues	\$ 9,542,633	\$ 9,772,779
Publications	207,539	239,915
Political and other contributions	1,531,897	1,385,361
Conferences and meetings	222,430	1,263,102
Amortization of gain on sale-leaseback	350,662	350,662
Rental income	101,671	92,911
Service fees	281,337	147,591
Product sales, royalties and commissions	126,671	131,559
Awards, education and professional development	189,344	283,965
Insurance proceeds	411,646	-
Investment income	180,723	218,189
Other	14,126	39,995
Net assets released from restrictions:		
Satisfaction of program restrictions	32,025	8,400
TOTAL UNRESTRICTED REVENUE AND OTHER SUPPORT	13,192,704	13,934,429
EXPENSES		
Program Services:		
Legislation, regulation and ethics	4,147,678	4,080,582
Support of state and local members	1,286,509	1,318,161
Publications and communication	898,797	926,352
Conference	548,234	952,797
Member benefits and professional development	1,022,937	1,013,715
Total Program Services	7,904,155	8,291,607
Supporting Services:		
Governance and administration	4,995,028	4,809,093
Total Supporting Services	4,995,028	4,809,093
TOTAL EXPENSES	12,899,183	13,100,700
CHANGE IN UNRESTRICTED NET ASSETS	293,521	833,729
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
REVENUE AND SUPPORT		
Contributions	25,000	25,000
Net assets released from restrictions:		
Satisfaction of program restrictions	(32,025)	(8,400)
TOTAL TEMPORARILY RESTRICTED REVENUE AND SUPPORT	(7,025)	16,600
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(7,025)	16,600
CHANGE IN NET ASSETS	286,496	850,329
NET ASSETS, BEGINNING OF YEAR	850,995	666
NET ASSETS, END OF YEAR	\$ 1,137,491	\$ 850,995

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE**

**CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2018
(With Summarized Financial Information for the Year Ended August 31, 2017)
Increase (Decrease) in Cash and Cash Equivalents**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 286,496	\$ 850,329
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized gains on investments	(43,804)	(97,609)
Realized gains on sale of investments	(57,293)	(65,274)
Depreciation and amortization	297,652	220,692
Bad debt	-	2,111
Amortization of deferred gain on sale-leaseback	(350,662)	(350,662)
Amortization of management contracts	45,201	-
Changes in assets and liabilities:		
Accounts receivable	58,010	(454,247)
Prepaid expenses	(448,221)	208,717
Deposits and other assets	(183,900)	(2,814)
Accounts payable and accrued expenses	(303,617)	377,890
Deferred dues	(110,372)	3,807
Other deferred revenue	641,741	(679,692)
Accrued medical benefits	(38,291)	25,817
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(207,060)	39,065
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,262,306)	(3,117,485)
Proceeds from the sale of investments	1,576,534	1,549,125
Purchases of property and equipment	(514,138)	(207,745)
Purchases of management contracts	(44,400)	-
Proceeds from insurance recoveries	411,646	-
NET CASH USED IN INVESTING ACTIVITIES	(832,664)	(1,776,105)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,039,724)	(1,737,040)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,153,815	3,890,855
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,114,091	\$ 2,153,815

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

1. Organization and Summary of Significant Accounting Policies

Organization

The National Association of Insurance and Financial Advisors (NAIFA), Subsidiary and Affiliate (collectively referred to as the Association) is a national federation of state and local associations and individual insurance agents and financial advisors. The mission of the Association is to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members. These activities are funded primarily through membership dues.

Principles of Consolidation

The consolidated financial statements of the Association have been prepared on the accrual basis of accounting and include the accounts of the National Association of Insurance and Financial Advisors (NAIFA); its wholly-owned subsidiary, NAIFA Service Corporation (NAIFASC); and its affiliate, the NAIFA Political Action Committee (NAIFAPAC). All material inter-company balances and transactions are reported separately in the supplemental consolidating schedules and have been eliminated in consolidation.

NAIFA was formed in 1890 as the National Association of Life Underwriters. NAIFA is comprised of over 500 state and local associations and approximately 27,000 individual insurance agents and financial advisors nationwide.

NAIFASC was incorporated in 1996 to publish NAIFA's official publication, NAIFA's *Advisor Today*.

NAIFAPAC was created to provide an opportunity for individuals interested in the goals of NAIFA to contribute to worthy candidates for federal office.

Cash Equivalents

The Association considers all money market funds to be cash equivalents.

Investments

Investments include various mutual funds, exchange traded funds (ETFs) and certificates of deposit with an original maturity date greater than ninety days. Investments are recorded in the accompanying consolidated statement of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For disclosure of inputs and valuation techniques, see Note 2. Interest income is recorded as earned. Realized and unrealized gains (losses) on investments are reported as unrestricted gains (losses). Purchases and sales are reflected on a trade-date basis. The cost of securities sold is based on the average cost method.

**NATIONAL ASSOCIATION OF INSURANCE AND
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement

In accordance with the fair value measurements and disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification, the Association has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Association has the ability to access. This classification is applied to any investment of the Association that has a readily available quoted market price from an active market where there is significant transparency in the executed/quoted market price.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active, or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability, such as quoted prices for similarly structured securities in active markets. This classification is applied to investments of the Association that have evaluated prices received from fixed-income vendors where the data inputs to these valuations do not represent quoted prices from an active market, but do represent quoted prices of similarly structured securities.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions by management of the Association about the assumptions a market participant would use in pricing the asset or liability. This classification is applied to investments of the Association for which there is no established trading market. Fair value is generally determined based on the fund's net asset value (NAV) as provided by the fund's management.

The Association's investments as described in Note 2 of these consolidated financial statements were measured at fair value on a recurring basis.

Accounts Receivable

Accounts receivable consist primarily of amounts due for educational and professional development programs. The Association uses the allowance method to record potentially uncollectible accounts.

**NATIONAL ASSOCIATION OF INSURANCE AND
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided principally on a straight-line basis over the estimated useful lives of the respective assets, which range from three to ten years. Leasehold improvements are amortized over the shorter of the lease term or useful life. Maintenance and repairs are charged to expense when incurred; major improvements are capitalized. Upon retirement or disposal of assets, the accounts are relieved of the cost and accumulated depreciation with any resulting gain or loss included in revenue or expense.

Deferred Gain on Sale-Leaseback

Deferred gain on sale-leaseback associated with the sale of the building transaction is recorded as a liability and is amortized on a straight-line basis over the leaseback term of ten years.

Classification of Net Assets

Unrestricted net assets represent the portion of expendable funds that are available for support of the Association's operations or have been designated by the Board for a particular purpose.

Temporarily restricted net assets are specifically restricted by donors for various programs or for future use.

Revenue Recognition

Dues

Membership dues are recognized as revenue in the period to which the dues relate. Accordingly, dues paid by members in advance of the period to which they pertain are reflected in the accompanying consolidated statement of financial position as deferred dues.

Contributions

Unrestricted contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. The Association reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated asset. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Conferences and Meetings

Conferences and meetings revenue consists of registrations and exhibit and sponsorship fees and is recognized in the year in which the conference takes place. Revenue from these activities received in advance of the meeting is reported as other deferred revenue in the accompanying consolidated statement of financial position.

**NATIONAL ASSOCIATION OF INSURANCE AND
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon estimates deemed to justify the benefits received by those programs and supporting services.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results could differ from those estimates.

2. Investments

The Association's investments as of August 31, 2018, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	\$ 1,200,000	\$ 1,199,464
Mutual funds and ETFs	<u>2,643,327</u>	<u>2,905,180</u>
Total Investments	<u>\$ 3,843,327</u>	<u>\$ 4,104,644</u>

Investment income, including the interest on cash and cash equivalents, is summarized as follows as of August 31, 2018:

Interest and dividends	\$ 79,626
Realized gain	57,293
Unrealized gain	<u>43,804</u>
Total Investment Income	<u>\$ 180,723</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

2. Investments (continued)

The following table summarizes the Association's investments measured at fair value on a recurring basis as of August 31, 2018, aggregated by the fair value hierarchy level with which those measurements were made:

	Total <u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Short-term bond funds	\$ 1,181,538	\$ 1,181,538	\$ -	\$ -
ETFs:				
Diversified emerging markets	123,513	123,513	-	-
Foreign large blend	154,197	154,197	-	-
Mid cap	129,041	129,041	-	-
Large blend	615,748	615,748	-	-
Small cap	70,654	70,654	-	-
Small value	64,994	64,994	-	-
Intermediate-term bond	182,493	182,493	-	-
High-yield bond	122,372	122,372	-	-
Corporate bond	61,544	61,544	-	-
US Treasury bills	199,086	199,086	-	-
Certificates of deposit	<u>1,199,464</u>	<u>-</u>	<u>1,199,464</u>	<u>-</u>
Total	<u>\$ 4,104,644</u>	<u>\$ 2,905,180</u>	<u>\$ 1,199,464</u>	<u>\$ -</u>

Mutual funds and ETFs – Level 1 investments include mutual funds and ETFs. ETFs are valued at the NAV of shares held at year-end. The funds have readily available quoted market prices from an active market where there is significant transparency in the executed/quoted market price.

Certificates of deposit – Certificates of deposit have original maturity dates in excess of 90 days. A yield-based matrix system was used to arrive at an estimated market value for these instruments, which are classified within Level 2 of the fair value hierarchy.

**NATIONAL ASSOCIATION OF INSURANCE AND
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

3. Property and Equipment

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

Furniture and equipment	\$ 2,264,615
Leasehold improvements	477,066
Website	<u>182,054</u>
Subtotal	2,923,735
Less: Accumulated Depreciation and Amortization	<u>(2,130,875)</u>
Net Property and Equipment	<u>\$ 792,860</u>

Depreciation expense for the year ended August 31, 2018, was \$297,652.

In July 2013, NAIFA signed an agreement to sell its land and building in Falls Church, Virginia, for \$16,000,000. The gain on the sale was calculated by NAIFA as \$3,521,234. In accordance with GAAP, the gain is deferred and recognized on a straight-line basis due to the fact that NAIFA is leasing back a substantial portion of the building for 10 years (Note 6). This resulted in a deferred gain on the sale-leaseback of the building in the same amount, with amortization totaling \$350,662 for the year ended August 31, 2018. The balance of the deferred gain of \$1,724,090 as of August 31, 2018, is included in the consolidated statement of financial position.

In February 2018, NAIFA entered into a contract to buy four association management and administrative services agreements for \$222,000. The purchase of these agreements is being amortized over the life of the agreements and resulted in amortization expense of \$45,201 for the year ended August 31, 2018. The \$176,799 unamortized purchase of the agreements is included in deposits and other assets and the balance of the amount due to the seller of \$177,600 is included in accounts payable and accrued expenses as of August 31, 2018 in the consolidated statement of financial position.

4. Net Assets

Undesignated

Undesignated net assets represent the unrestricted portion of the net assets of the Association as of August 31, 2018. Net assets will reflect the amortization of the deferred gain on the sale-leaseback transaction (Note 3) each year through August 31, 2023, until the full \$1,724,090 shown as a liability in the accompanying consolidated statement of financial position as of August 31, 2018, has been recognized in net assets.

**NATIONAL ASSOCIATION OF INSURANCE AND
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

4. Net Assets (continued)

Board Designated

Reserve Assets

During the year ended August 31, 2005, the Board of Trustees of NAIFA voted to adopt a written reserve policy to provide emergency funds to meet unforeseen budget shortfalls, to provide seed money for new initiatives or programs, and to provide a means for funding future debt service requirements and the replacement of capital assets.

Temporarily Restricted

Temporarily restricted net assets represent unspent contributions to the Capital 50 fund.

5. Pension Plans

Accrued Medical Benefits

The Association has a self-insured medical plan. As a result, the Association is required to accrue a liability related to claims that have been incurred but not yet paid and an estimate for future claims not yet incurred. As of August 31, 2018, this amount was \$42,363, and is included in accrued medical benefits in the accompanying consolidated statement of financial position. A stop-loss policy is in effect for the medical plan, which limits the Association's loss per individual employee up to \$50,000, and an aggregate stop-loss amount which varies based on number of current employees, subject to an annual maximum policy limit of \$1,000,000. These amounts do not represent an additional liability to the Association under GAAP.

Defined Contribution Plan

The Association also has a defined contribution 401(k) plan for employees meeting certain eligibility requirements. Under the terms of the defined contribution plan, eligible employees may elect to contribute up to the federal tax limitation. The employer contribution is discretionary. The vesting period is three years. The Association's contribution to the Plan was \$114,719 for the year ended August 31, 2018.

6. Commitments and Contingencies

Contractual Commitments

The Association has entered into various letters of agreement for commitments for hotel accommodations for its planned conferences through May 2022. In the event the Association were to cancel these reservations or fail to use a specified percentage of the total space reserved, the Association would be required to pay liquidated damages based upon the date the hotel was notified of the cancellation or reduction in requested rooms as well as the hotel's ability to fill the resulting vacancies. Management of the Association does not believe that any of these commitments will result in a loss due to liquidated damages. Accordingly, no amount for this potential liability has been reflected in the accompanying consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

6. Commitments and Contingencies (continued)

Concentration of Credit Risk

The cash and cash equivalents of the Association are composed of amounts in accounts at various financial institutions. While the amounts at times exceed the amount guaranteed by federal agencies and therefore bear some risk, the Association places its cash and cash equivalents with high-credit, quality financial institutions and seeks to limit the amount of credit exposure. The Association has not experienced, nor does it anticipate, any loss of funds. As of August 31, 2018, the amount in excess of the amount guaranteed by federal agencies was approximately \$842,000.

Financial Support to Related Entities

Management of NAIFA has represented that it intends to provide financial support to NAIFASC sufficient to ensure the continued operations of NAIFASC.

Operating Lease

In conjunction with the sale of its building in July 2013, NAIFA entered into a ten-year noncancelable operating lease commencing on July 16, 2013, to lease back its office space in the building in Falls Church, Virginia. NAIFA is entitled to extend the term of the lease for five years. This lease agreement contains a provision for an increase in rent of 3% per annum beginning on the first anniversary date.

Under GAAP, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

During year ended August 31, 2018, NAIFA's total rent expense under this lease was \$819,642.

NAIFA subleased a portion of its office space commencing on January 1, 2015, for sixty months with similar scheduled rent increases to its office space lease. Commencing August 1, 2018, NAIFA subleased an additional portion of its office space for 24 months, with annual rent escalations. During the year ended August 31, 2018, rental income for this sublease was \$101,671.

As of August 31, 2018, total future minimum annual lease payments, net of noncancelable sublease payments, were as follows:

<u>For the Year Ending August 31,</u>	<u>Lease Commitment</u>	<u>Sublease Income</u>	<u>Net Minimum Commitment</u>
2019	\$ 820,947	\$ (172,890)	\$ 648,057
2020	845,575	(106,845)	738,730
2021	870,943	-	870,943
2022	897,071	-	897,071
2023	844,872	-	844,872
Total	<u>\$ 4,279,408</u>	<u>\$ (279,735)</u>	<u>\$ 3,999,673</u>

**NATIONAL ASSOCIATION OF INSURANCE AND
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

7. Related Party

The board of directors of the Life and Health Insurance Foundation for Education (LIFE) is appointed by LIFE's members. For the year ended August 31, 2018, NAIFA represented one of LIFE's members. During the year ended August 31, 2018, the Association was billed \$200,000 from LIFE for membership dues.

8. Income Taxes

NAIFA is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. However, income from certain activities not directly related to NAIFA's tax-exempt purpose is subject to taxation as unrelated business income. NAIFA generates unrelated business income from commissions it receives from various affinity programs, advertising and royalties.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

NAIFA had an accumulated federal net operating tax loss carryforward of approximately \$203,000 as of August 31, 2018. As of August 31, 2018, the related deferred tax asset was fully reserved by management due to uncertainty over the ability to recognize a material future tax benefit based upon projections for taxable losses.

NAIFAPAC is subject to federal and state income taxes on income other than exempt purpose income. For the year ended August 31, 2018, no provision for income tax was required as NAIFAPAC did not generate any significant net taxable income.

NAIFASC is subject to federal and state income taxes and files separate federal and applicable state income tax returns. Temporary differences that give rise to the deferred tax assets are comprised of the differences between the financial statement carrying amount and the tax basis of net operating loss carryforwards, bad debt allowance reserves and payroll liabilities. NAIFASC had a net federal tax operating loss carryforward of approximately \$2,362,000 for the year ended August 31, 2018.

The deferred tax asset of NAIFASC as of August 31, 2018, has been fully reserved by management due to the uncertainty over the ability to recognize a material future tax benefit based upon projections for operating and taxable losses.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2018**

8. Income Taxes (continued)

The Association reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertainty in income taxes. For the year ended August 31, 2018, management did not identify any uncertainty in income taxes requiring recognition or disclosure in these consolidated financial statements. Tax years reasonably considered open and subject to examination include returns for the year ended August 31, 2015, through the year ended August 31, 2018. It is the Association's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

The net deferred tax assets consisted of the following as of August 31, 2018:

Deferred tax assets:	
NAIFA	\$ 203,000
NAIFASC	2,361,703
Deferred tax liability	<u>-</u>
Subtotal	2,564,703
Deferred tax valuation allowance – NAIFA	(203,000)
Deferred tax valuation allowance – NAIFASC	<u>(2,361,703)</u>
Net Deferred Tax Assets	<u><u>\$ -</u></u>

9. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended August 31, 2017, from which the summarized information was derived.

10. Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

11. Subsequent Events

In preparing these consolidated financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 11, 2018, the date the consolidated financial statements were available to be issued. The Association will change its fiscal year to December 31 from August 31, effective January 1, 2019.

SUPPLEMENTAL INFORMATION

**NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
August 31, 2018

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
ASSETS						
Cash and cash equivalents	\$ 671,829	\$ 441,475	\$ 787	\$ 1,114,091	\$ -	\$ 1,114,091
Net accounts receivable	87,329	-	2,500	89,829	(64,168)	25,661
Prepaid expenses	791,010	-	2,674	793,684	-	793,684
Investments	4,104,644	-	-	4,104,644	-	4,104,644
Investment in NAIFASC	(39,039)	-	-	(39,039)	39,039	-
Deposits and other assets	481,199	-	-	481,199	-	481,199
Net property and equipment	792,860	-	-	792,860	-	792,860
TOTAL ASSETS	\$ 6,889,832	\$ 441,475	\$ 5,961	\$ 7,337,268	\$ (25,129)	\$ 7,312,139
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	\$ 1,283,873	\$ 156,824	\$ 11,815	\$ 1,452,512	\$ (64,168)	\$ 1,388,344
Deferred dues	1,936,514	-	-	1,936,514	-	1,936,514
Deferred gain on sale-leaseback	1,724,090	-	-	1,724,090	-	1,724,090
Other deferred revenue	1,050,152	-	33,185	1,083,337	-	1,083,337
Accrued medical benefits	42,363	-	-	42,363	-	42,363
TOTAL LIABILITIES	6,036,992	156,824	45,000	6,238,816	(64,168)	6,174,648
NET ASSETS						
Unrestricted	718,265	284,651	-	1,002,916	-	1,002,916
Temporarily restricted	134,575	-	-	134,575	-	134,575
TOTAL NET ASSETS	852,840	284,651	-	1,137,491	-	1,137,491
STOCKHOLDER'S EQUITY						
Common stock	-	-	1,000	1,000	(1,000)	-
Treasury stock	-	-	(10,000)	(10,000)	10,000	-
Additional paid-in capital	-	-	2,606,632	2,606,632	(2,606,632)	-
Retained earnings	-	-	(2,636,671)	(2,636,671)	2,636,671	-
TOTAL STOCKHOLDER'S EQUITY	-	-	(39,039)	(39,039)	39,039	-
TOTAL LIABILITIES AND NET ASSETS	\$ 6,889,832	\$ 441,475	\$ 5,961	\$ 7,337,268	\$ (25,129)	\$ 7,312,139

**NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE**

**CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2018**

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
REVENUE AND OTHER SUPPORT						
Dues	\$ 9,542,633	\$ -	\$ -	\$ 9,542,633	\$ -	\$ 9,542,633
Publications	35,886	-	176,693	212,579	(5,040)	207,539
Political and other contributions	268,750	1,335,036	-	1,603,786	(46,889)	1,556,897
Conferences and meetings	222,430	-	-	222,430	-	222,430
Amortization of gain on sale-leaseback	350,662	-	-	350,662	-	350,662
Rental income	101,671	-	-	101,671	-	101,671
Service fees	344,342	-	-	344,342	(63,005)	281,337
Product sales, royalties and commissions	159,909	-	51	159,960	(33,289)	126,671
Awards, education and professional development	189,344	-	-	189,344	-	189,344
Insurance proceeds	411,646	-	-	411,646	-	411,646
Investment income	180,723	-	-	180,723	-	180,723
Other	14,126	-	-	14,126	-	14,126
TOTAL REVENUE AND OTHER SUPPORT	11,822,122	1,335,036	176,744	13,333,902	(148,223)	13,185,679
EXPENSES						
Program Services:						
Legislation, regulation and ethics	2,660,745	1,539,719	-	4,200,464	(52,786)	4,147,678
Support of state and local members	1,286,509	-	-	1,286,509	-	1,286,509
Publications and communication	739,488	-	192,598	932,086	(33,289)	898,797
Conference	548,234	-	-	548,234	-	548,234
Member benefits and professional development	1,027,417	-	-	1,027,417	(4,480)	1,022,937
Total Program Services	6,262,393	1,539,719	192,598	7,994,710	(90,555)	7,904,155
Supporting Services:						
Governance and administration	4,976,848	-	75,848	5,052,696	(57,668)	4,995,028
Total Supporting Services	4,976,848	-	75,848	5,052,696	(57,668)	4,995,028
TOTAL EXPENSES	11,239,241	1,539,719	268,446	13,047,406	(148,223)	12,899,183
EQUITY IN EARNINGS OF SUBSIDIARY NAIFASC	(91,703)	-	-	(91,703)	91,703	-
CHANGE IN NET ASSETS	\$ 491,178	\$ (204,683)	\$ (91,702)	\$ 194,793	\$ 91,703	\$ 286,496