NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

Consolidated Financial Statements

For the Years Ended August 31, 2016 and 2015

and
Report Thereon

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

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For the Years Ended August 31, 2016 and 2015

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 statements of financial position as of August 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years 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 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 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.

Continued

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 9, 2016

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 3,890,855	$ 1,923,100
Accounts receivable, net of allowance for doubtful accounts of $15,000 for 2016 and 2015	43,181	92,048
Prepaid expenses	554,180	486,030
Investments	1,586,532	5,767,433
Pension asset	-	983,290
Deposits and other assets	295,286	292,346
Net property and equipment	589,322	406,053
TOTAL ASSETS	$ 6,959,356	$ 9,950,300
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,314,071	$ 977,476
Deferred dues	2,043,079	2,435,875
Deferred gain on sale-leaseback	2,425,415	2,776,077
Other deferred revenue	1,121,288	936,985
Accrued medical benefits	54,837	84,081
TOTAL LIABILITIES	6,958,690	7,210,494
Net Assets (Deficit)		
Unrestricted		
Undesignated	(3,757,810)	2,029,199
Board designated	3,633,476	5,040,885
Accumulated net unrecognized actuarial loss	-	(4,330,278)
Total Unrestricted Net Assets (Deficit)	(124,334)	2,739,806
Temporarily Restricted	125,000	-
TOTAL NET ASSETS	666	2,739,806
TOTAL LIABILITIES AND NET ASSETS	$ 6,959,356	$ 9,950,300

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

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2016 and 2015

	2016	2015
CHANGE IN UNRESTRICTED NET ASSETS:		
REVENUE AND OTHER SUPPORT		
Dues	$ 9,659,812	$ 10,676,510
Publications	239,843	245,405
Political and other contributions	1,389,335	1,629,289
Conferences and meetings	1,097,148	1,051,568
Amortization of gain on sale-leaseback	350,662	350,662
Rental income and service fees	97,476	99,875
Product sales, royalties and commissions	142,154	160,996
Awards, education and professional development	282,708	274,677
Investment (loss) gain	147,334	(55,617)
Other	91,796	101,577
TOTAL UNRESTRICTED REVENUE AND OTHER SUPPORT	13,498,268	14,534,942
EXPENSES		
Program services		
Legislation, regulation and ethics	4,560,459	4,706,879
Support of state and local members	1,560,731	1,846,878
Publications and communication	1,139,469	1,086,248
Conference	893,135	946,683
Member benefits and professional development	955,286	1,030,764
Total Program services	9,109,080	9,617,452
Supporting services		
Governance and administration	5,612,123	5,025,261
Total Supporting services	5,612,123	5,025,261
TOTAL EXPENSES	14,721,203	14,642,713
CHANGE IN UNRESTRICTED NET ASSETS	(1,222,935)	(107,771)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
REVENUE AND SUPPORT		
Contributions	125,000	-
TOTAL TEMPORARILY RESTRICTED REVENUE AND SUPPORT	125,000	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	125,000	-
CHANGE IN NET ASSETS BEFORE PENSION COSTS	(1,097,935)	(107,771)
Termination and other pension costs	(1,641,205)	-
Unrecognized pension (loss) gain, net of amortization	-	593,983
CHANGE IN NET ASSETS	(2,739,140)	486,212
NET ASSETS, BEGINNING OF YEAR	2,739,806	2,253,594
NET ASSETS, END OF YEAR	$ 666	$ 2,739,806

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

NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,739,140)	$ 486,212
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized loss on investments	52,886	185,666
Realized gains on sale of investments	(107,924)	(13,765)
Depreciation and amortization	146,152	146,670
Bad debt	43,202	-
Termination and other pension costs	1,641,205	-
Unrecognized pension (gain) loss	-	(593,983)
Amortization of deferred gain on sale-leaseback	(350,662)	(350,662)
Changes in assets and liabilities:		
Accounts receivable	5,666	(8,270)
Prepaid expenses	(68,150)	321,213
Pension asset	(657,915)	(17,435)
Deposits and other assets	(2,940)	(5,169)
Accounts payable and accrued expenses	336,595	(92,964)
Deferred dues	(392,797)	(216,151)
Other deferred revenue	184,303	(170,307)
Accrued medical benefits	(29,244)	14,939
NET CASH USED IN OPERATING ACTIVITIES	(1,938,763)	(314,006)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,817,346)	(2,506,785)
Proceeds from the sale of investments	6,053,285	2,640,322
Purchases of property and equipment	(329,421)	(160,511)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,906,518	(26,974)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,967,755	(340,980)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,923,100	2,264,080
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,890,855	$ 1,923,100

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

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 570 state and local associations and approximately 37,500 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 statements 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.

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 (FASB) Accounting Standards Codification (ASC), 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.

As of August 31, 2016 and 2015, the Association’s investments as described in Note 2 of these consolidated financial statements were measured at fair value on a recurring basis. As of August 31, 2015, the investments related to the Association’s defined benefit plan as described in Note 5 of these consolidated financial statements were also measured at fair value on a recurring basis.

Continued

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

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.

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 statements 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 statements of activities as net assets released from restrictions.

Continued

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

Revenue Recognition (continued)

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 statements of financial position.

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 statements 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 are summarized as follows:

	August 31, 2016		August 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Certificates of Deposit	$ -	$ -	$ 1,250,000	$ 1,250,327
Mutual funds and ETFs	1,465,146	1,586,532	4,343,166	4,517,106
Total Investments	$ 1,465,146	$ 1,586,532	$ 5,593,166	$ 5,767,433

Investment returns (losses), including the interest on cash and cash equivalents, are summarized as follows as of August 31:

	2016	2015
Interest and dividends	$ 92,296	$ 116,284
Realized gain	107,924	13,765
Unrealized gain (loss)	(52,886)	(185,666)
Total	$ 147,334	$ (55,617)

2. Investments (continued)

The following table summarizes the Association's investments measured at fair value on a recurring basis as of August 31, 2016, aggregated by the fair value hierarchy level with which those measurements were made:

	Total	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	$ 803,729	$ 803,729	$ -	$ -
ETFs:				
Foreign large blend	101,547	101,547	-	-
Real estate	51,425	51,425	-	-
Mid cap	52,803	52,803	-	-
Large blend	469,323	469,323	-	-
Small cap	54,425	54,425	-	-
Small value	53,280	53,280	-	-
Total	$ 1,586,532	$ 1,586,532	$ -	$ -

The following table summarizes the Association's investments measured at fair value on a recurring basis as of August 31, 2015, aggregated by the fair value hierarchy level with which those measurements were made:

	Total	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	$ 1,764,289	$ 1,764,289	$ -	$ -
Leverage loan funds	520,925	520,925	-	-
ETFs:				
Diversified emerging markets	189,473	189,473	-	-
Foreign large blend	273,369	273,369	-	-
Real estate	177,450	177,450	-	-
Mid cap	180,974	180,974	-	-
Large blend	1,157,358	1,157,358	-	-
Small cap	88,339	88,339	-	-
Small value	164,929	164,929	-	-
Certificates of deposit	1,250,327	-	1,250,327	-
Total	$ 5,767,433	$ 4,517,106	$ 1,250,327	$ -

Continued

2. Investments (continued)

Mutual funds and ETFs – Level 1 investments include mutual funds and ETFs and 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 valuation hierarchy.

3. Property and Equipment

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

	2016	2015
Furniture and equipment	$ 2,469,240	$ 2,246,336
Leasehold improvements	166,493	118,573
Website	178,117	124,379
Subtotal	2,813,850	2,489,288
Less: Accumulated Depreciation and Amortization	(2,224,528)	(2,083,235)
Net Property and Equipment	$ 589,322	$ 406,053

Depreciation and amortization expense for the years ended August 31, 2016 and 2015, was $146,152 and $146,670, respectively.

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 both of the years ended August 31, 2016 and 2015. The balance of the deferred gain of $2,425,415 and $2,776,077 as of August 31, 2016 and 2015, respectively, is included in the consolidated statements 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, 2016 and 2015. Due to the pension termination in 2016 (Note 5), the accumulated net unrecognized actuarial loss at the beginning of the year of $4,330,278 was charged against unrestricted undesignated net assets, which resulted in the deficit balance as

Continued

4. Net Assets

Undesignated (continued)

of August 31, 2016. 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 $2,425,415 shown as a liability in the accompanying consolidated statement of financial position as of August 31, 2016 has been recognized in net assets.

Board Designated

Reserve Fund

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.

During the year ended August 31, 2016, the Board approved a transfer from the reserve of $1,417,058 to cover costs related to the pension plan termination and a transfer from the reserve of $134,275 to fund certain professional development initiatives. In addition there was net investment income of $121,934. During the year ended August 31, 2015, the Board approved a transfer from the reserve of $300,000 to fund the pension plan, and there was net investment loss of $87,708.

As a result of these activities, the balance of the Reserve Fund as of August 31, 2016 and 2015, was $3,548,499 and $4,977,898, respectively, which is included in board designated funds in the accompanying consolidated statements of financial position. The assets comprising the Reserve Fund include investments of NAIFA of $1,586,532 and $4,927,768, respectively, as of August 31, 2016 and 2015, plus $1,961,967 and $50,130, respectively, of cash and cash equivalents as of August 31, 2016 and 2015.

War Chest

These net assets totaling $84,977 and $62,987 as of August 31, 2016 and 2015, respectively, represent funds set aside by the Board of Trustees to respond to future legislative and regulatory initiatives, as needed. The assets comprising the War Chest are included in cash and cash equivalents as of August 31, 2016 and 2015.

Temporarily Restricted

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

Continued

5. Pension Plans

Defined Benefit Pension Plan

The Association maintained a noncontributory defined benefit pension plan (the Plan). Benefits were based upon years of service and employees' earnings during their years of employment. The Association's funding policy was to contribute annually based on actuarially determined funding amounts in accordance with ERISA guidelines. The Association adopted a resolution to freeze the defined benefit plan as of March 31, 2001, with the termination date to be determined at a later date. The Association terminated the plan and paid out the remaining pension obligation during 2016 and recognized termination and other pension costs in the accompanying consolidated statements of activities as follows:

	2016
Settlements and curtailments charges	$ 5,971,483
Cumulative unrecognized actuarial loss, beginning of year	(4,330,278)
Termination and other pension costs	$ 1,641,205

The measurement date for the following actuarial information was August 31:

Obligations and Funded Status

	2016	2015
Projected benefit obligation	$ -	$ (8,306,852)
Fair value of plan assets	-	9,290,142
Funded Status	$ -	$ 983,290

Amounts recognized in the accompanying consolidated statements of financial position consisted of the following as of August 31:

	2016	2015
Pension asset	$ -	$ (983,290)

Items not yet recognized as a component of net periodic pension cost and included in unrestricted net assets included the following as of August 31:

	2016	2015
Cumulative unrecognized actuarial loss	$ -	$ (4,330,278)

Amounts recognized in the accompanying consolidated statements of activities consisted of the following as of August 31:

	2016	2015
Net periodic benefit cost	$ 759,143	$ 282,565

Continued

5. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Obligations and Funded Status (continued)

Contributions and benefits paid for the years ended August 31, 2016 and 2015, were as follows:

	2016	2015
Employer contribution	$ 1,437,058	$ 300,000
Benefits paid	$ 10,709,553	$ 1,104,146

Assumptions

Weighted average assumptions used in determining the benefit obligation and net periodic benefit cost for the year ended August 31, 2016, and as of and for the year ended August 31, 2015, were as follows:

	2016	2015
Discount rate – benefit obligation	N/A	4.75%
Discount rate – net periodic benefit cost	4%	4.50%
Expected long-term return on plan assets	N/A	1.00%
Rate of compensation increase	N/A	N/A

The Association's approach to determine the overall expected long-term rate of return was to determine a best estimate based upon the historical average of the real rate of return (net of inflation).

Plan Assets

As the plan was terminated during fiscal year 2016, there were no plan assets as of August 31, 2016. As of August 31, 2015, the Association's investment objectives of the Plan's assets included an approach that sought to achieve stable investment values in order to terminate the Plan at some future date rather than an investment appreciation approach aimed at maximizing returns over the long term. The asset allocation was reviewed and approved at least semi-annually by the Retirement Committee.

Continued

5. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Plan Assets (continued)

The Association's pension plan assets as of August 31, 2015, by asset category, using the fair value input measurements as outlined in Note 1 to these consolidated financial statements, were as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Guaranteed insurance contract	$ 9,256,698	$ -	$ -	$ 9,256,698
Money market funds	33,444	33,444	-	-
Total	$ 9,290,142	$ 33,444	$ -	$ 9,256,698

Guaranteed insurance contract – The contract consisted of funds held with an insurance company and supported by assets in a reserve account. The account was credited with a fixed interest rate and is valued at cost plus accrued interest, which approximated fair value.

Money market funds and cash – Level 1 investments included money market funds for which the fair value is equal to the reported NAV of the fund, which is the price at which additional shares can be obtained, and was based on quoted prices in active markets.

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows for the year ended August 31, 2016:

Beginning balance, August 31, 2015	$ 9,256,698
Actual return on plan assets	(17,647)
Investment purchases	1,437,058
Investment sales	(10,676,109)
Ending balance, August 31, 2016	$ -

Contributions

Generally, the Association's funding policy was to contribute annually the actuarially determined minimum funding amount in accordance with ERISA guidelines. During the years ended August 31, 2016 and 2015, the Association contributed $1,437,058 and $300,000, respectively, to its pension plan. The Association does not expect to make any contributions to the plan for the year ending August 31, 2017, as the plan has been terminated.

Continued

5. Pension Plans (continued)

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, 2016 and 2015, this amount was $54,837 and $84,081, respectively, and is included in accrued medical benefits in the accompanying consolidated statements of financial position.

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. On June 22, 2016, the Board approved a change effective September 1, 2016, to the vesting period for NAIFA's 401(k) Savings Plan which reduced the vesting period from five years to three years. The Association's contribution to the Plan was $124,500 and $112,149 for the years ended August 31, 2016 and 2015, respectively.

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 September 2018. 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.

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, 2016 and 2015, the amount in excess of the amount guaranteed by federal agencies was $3,601,510 and $1,631,571, respectively.

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.

Continued

6. Commitments and Contingencies (continued)

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 statements of financial position.

During both of the years ended August 31, 2016 and 2015, NAIFA's total rent expense under this lease was $809,354.

In the prior year, 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. During the year ended August 31, 2016, rental income for this sublease was $91,057.

As of August 31, 2016, total future minimum annual lease payments, net of noncancelable sublease payments, are as follows:

For the Year Ending August 31,	Lease Commitment	Sublease Income	Net Minimum Commitment
2017	$ 773,821	$ (90,079)	$ 683,742
2018	797,036	(92,781)	704,255
2019	820,947	(95,565)	725,382
2020	845,575	(32,729)	812,846
2021	870,943	-	870,943
Thereafter	1,741,942	-	1,741,942
Total	$ 5,850,264	$ (311,154)	$ 5,539,110

7. Related Parties

Life and Health Insurance Foundation for Education (LIFE)

The board of directors of LIFE is appointed by LIFE's members. For the years ended August 31, 2016 and 2015, NAIFA represented one of LIFE's members. During the years ended August 31, 2016 and 2015, the Association was billed $250,000 and $380,000 respectively, from LIFE for membership dues.

Continued

7. Related Parties (continued)

GAMA

GAMA was an unincorporated conference of NAIFA. In January 2003, the board of NAIFA approved an agreement whereby GAMA would separately incorporate from NAIFA effective September 1, 2003. Under the terms of the agreement, NAIFA retains control over the approval of all bylaw amendments of GAMA and certain members of GAMA are required to be members of NAIFA.

Effective September 1, 2003, GAMA entered into a seven year office lease with NAIFA for space in the NAIFA headquarters building and other services. In May 2008, an amendment to this lease agreement was entered into to extend the lease term through August 31, 2015. When NAIFA sold the building in July 2013, the lease agreement with GAMA was assigned to the new owner, but NAIFA continued to provide the other services. No amount was billed to GAMA during the year ended August 31, 2016. NAIFA billed GAMA $36,371 during the year ended August 31, 2015, under the terms of the agreements. Additionally, GAMA owed NAIFA $3,109 as of August 31, 2015, for service fees and miscellaneous office charges, which was paid to NAIFA during the year ended August 31, 2016. The amount owed as of August 31, 2015, is included in accounts receivable in the accompanying consolidated statements of financial position.

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 $230,000 as of August 31, 2015. As of August 31, 2016 and 2015, 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. The remaining operating loss carryforward of $247,000 as of August 31, 2016, expires in the year 2033.

NAIFAPAC is subject to federal and state income taxes on income other than exempt purpose income. For the years ended August 31, 2016 and 2015, no provision for income tax was required as NAIFAPAC did not generate any significant net taxable income.

Continued

8. Income Taxes (continued)

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 $2,183,000 and $1,919,000 for the years ended August 31, 2016 and 2015, respectively. This loss carryforward may be used to offset future taxable income and begins to expire in 2029.

The deferred tax asset of NAIFASC as of August 31, 2016 and 2015, 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.

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 uncertain tax positions. For the years ended August 31, 2016 and 2015, management did not identify any uncertain tax positions 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, 2013, through the year ended August 31, 2015. It is the Association's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

The net deferred tax asset consisted of the following as of August 31, 2016 and 2015:

	2016	2015
Deferred tax assets:		
NAIFA	$ 79,508	$ 72,791
NAIFASC	720,390	633,270
Deferred tax liability	-	-
Subtotal	799,898	706,061
Deferred tax valuation allowance – NAIFA	(79,508)	(72,791)
Deferred tax valuation allowance – NAIFASC	(720,390)	(633,270)
Net deferred tax assets	$ -	$ -

9. Subsequent Events

In preparing these consolidated financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 9, 2016, the date the consolidated financial statements were available to be issued. There were no subsequent events identified that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTAL CONSOLIDATING INFORMATION

NATIONAL ASSOCIATION OF INSURANCE AND
FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
August 31, 2016

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
ASSETS						
Cash and cash equivalents	$ 3,056,009	$ 810,132	$ 24,714	$ 3,890,855	$ -	$ 3,890,855
Net accounts receivable	116,506	-	-	116,506	(73,325)	43,181
Prepaid expenses	549,919	-	4,261	554,180	-	554,180
Investments	1,586,532	-	-	1,586,532	-	1,586,532
Investment in NAIFASC	(24,555)	-	-	(24,555)	24,555	-
Pension asset	-	-	-	-	-	-
Deposits and other assets	295,286	-	-	295,286	-	295,286
Net property and equipment	589,322	-	-	589,322	-	589,322
TOTAL ASSETS	$ 6,169,019	$ 810,132	$ 28,975	$ 7,008,126	$ (48,770)	$ 6,959,356
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	$ 1,132,617	$ 244,916	$ 9,863	$ 1,387,396	$ (73,325)	$ 1,314,071
Deferred dues	2,043,079	-	-	2,043,079	-	2,043,079
Deferred gain on sale-leaseback	2,425,415	-	-	2,425,415	-	2,425,415
Other deferred revenue	1,077,621	-	43,667	1,121,288	-	1,121,288
Accrued medical benefits	54,837	-	-	54,837	-	54,837
TOTAL LIABILITIES	6,733,569	244,916	53,530	7,032,015	(73,325)	6,958,690
NET ASSETS						
Unrestricted						
Undesignated	(4,323,026)	565,216	-	(3,757,810)	-	(3,757,810)
Board designated	3,633,476	-	-	3,633,476	-	3,633,476
Temporarily restricted	125,000	-	-	125,000	-	125,000
TOTAL NET ASSETS	(564,550)	565,216	-	666	-	666
STOCKHOLDER'S EQUITY						
Common stock	-	-	1,000	1,000	(1,000)	-
Treasury stock	-	-	(10,000)	(10,000)	10,000	-
Additional paid-in capital	-	-	2,442,032	2,442,032	(2,442,032)	-
Retained earnings	-	-	(2,457,587)	(2,457,587)	2,457,587	-
TOTAL STOCKHOLDER'S EQUITY	-	-	(24,555)	(24,555)	24,555	-
TOTAL LIABILITIES AND NET ASSETS	$ 6,169,019	$ 810,132	$ 28,975	$ 7,008,126	$ (48,770)	$ 6,959,356

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
August 31, 2015

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
ASSETS						
Cash and cash equivalents	$ 497,603	$ 1,416,430	$ 9,067	$ 1,923,100	$ -	$ 1,923,100
Net accounts receivable	137,667	-	-	137,667	(45,619)	92,048
Prepaid expenses	464,973	-	21,057	486,030	-	486,030
Investments	5,767,433	-	-	5,767,433	-	5,767,433
Investment in NAIFASC	(28,824)	-	-	(28,824)	28,824	-
Pension asset	983,290	-	-	983,290	-	983,290
Deposits and other assets	292,346	-	-	292,346	-	292,346
Net property and equipment	406,053	-	-	406,053	-	406,053
TOTAL ASSETS	$ 8,520,541	$ 1,416,430	$ 30,124	$ 9,967,095	$ (16,795)	$ 9,950,300
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	$ 890,931	$ 125,306	$ 6,858	$ 1,023,095	$ (45,619)	$ 977,476
Deferred dues	2,435,875	-	-	2,435,875	-	2,435,875
Deferred gain on sale-leaseback	2,776,077	-	-	2,776,077	-	2,776,077
Other deferred revenue	884,895	-	52,090	936,985	-	936,985
Accrued medical benefits	84,081	-	-	84,081	-	84,081
TOTAL LIABILITIES	7,071,859	125,306	58,948	7,256,113	(45,619)	7,210,494
NET ASSETS						
Unrestricted						
Undesignated	738,075	1,291,124	-	2,029,199	-	2,029,199
Board designated	5,040,885	-	-	5,040,885	-	5,040,885
Accumulated net unrecognized actuarial loss	(4,330,278)	-	-	(4,330,278)	-	(4,330,278)
TOTAL NET ASSETS	1,448,682	1,291,124	-	2,739,806	-	2,739,806
STOCKHOLDER'S EQUITY						
Common stock	-	-	1,000	1,000	(1,000)	-
Treasury stock	-	-	(10,000)	(10,000)	10,000	-
Additional paid-in capital	-	-	2,173,603	2,173,603	(2,173,603)	-
Retained earnings	-	-	(2,193,427)	(2,193,427)	2,193,427	-
TOTAL STOCKHOLDER'S EQUITY	-	-	(28,824)	(28,824)	28,824	-
TOTAL LIABILITIES AND NET ASSETS	$ 8,520,541	$ 1,416,430	$ 30,124	$ 9,967,095	$ (16,795)	$ 9,950,300

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2016

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
REVENUE AND OTHER SUPPORT						
Dues	$ 9,659,812	$ -	$ -	$ 9,659,812	$ -	$ 9,659,812
Publications	23,386	-	242,777	266,163	(26,320)	239,843
Political and other contributions	242,750	1,271,585	-	1,514,335	-	1,514,335
Conferences and meetings	1,097,148	-	-	1,097,148	-	1,097,148
Amortization of gain on sale-leaseback	350,662	-	-	350,662	-	350,662
Rental income and service fees	171,738	-	-	171,738	(74,262)	97,476
Product sales, royalties and commissions	198,426	-	178	198,604	(56,450)	142,154
Awards, education and professional development	282,708	-	-	282,708	-	282,708
Investment gain	147,334	-	-	147,334	-	147,334
Other	91,796	-	-	91,796	-	91,796
TOTAL REVENUE AND OTHER SUPPORT	12,265,760	1,271,585	242,955	13,780,300	(157,032)	13,623,268
EXPENSES						
Program services						
Legislation, regulation and ethics	2,564,085	1,997,494	-	4,561,579	(1,120)	4,560,459
Support of state and local members	1,567,451	-	-	1,567,451	(6,720)	1,560,731
Publications and communication	785,004	-	414,275	1,199,279	(59,810)	1,139,469
Conference	897,615	-	-	897,615	(4,480)	893,135
Member benefits and professional development	965,926	-	-	965,926	(10,640)	955,286
Total Program services	6,780,081	1,997,494	414,275	9,191,850	(82,770)	9,109,080
	(1,560,731)	231,958	1,799,409			
Supporting services	(231,958)	225,238				
Governance and administration	5,593,547	-	92,838	5,686,385	(74,262)	5,612,123
Total Supporting services	5,593,547	-	92,838	5,686,385	(74,262)	5,612,123
TOTAL EXPENSES	12,373,628	1,997,494	507,113	14,878,235	(157,032)	14,721,203
EQUITY IN EARNINGS OF SUBSIDIARY NAIFASC	(264,159)	-	-	(264,159)	264,159	-
CHANGE IN NET ASSETS BEFORE TERMINATION AND OTHER PENSION COSTS	(372,027)	(725,909)	(264,158)	(1,362,094)	264,159	(1,097,935)
Termination and other pension costs	(1,641,205)	-	-	(1,641,205)	-	(1,641,205)
CHANGE IN NET ASSETS	$ (2,013,232)	$ (725,909)	$ (264,158)	$ (3,003,299)	$ 264,159	$ (2,739,140)

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2015

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
REVENUE AND OTHER SUPPORT						
Dues	$ 10,676,510	$ -	$ -	$ 10,676,510	$ -	$ 10,676,510
Publications	13,209	-	256,276	269,485	(24,080)	245,405
Political and other contributions	118,450	1,810,839	-	1,929,289	(300,000)	1,629,289
Conferences and meetings	1,051,568	-	-	1,051,568	-	1,051,568
Amortization of gain on sale-leaseback	350,662	-	-	350,662	-	350,662
Rental income and service fees	186,071	-	-	186,071	(86,196)	99,875
Product sales, royalties and commissions	218,722	-	399	219,121	(58,125)	160,996
Awards, education and professional development	274,677	-	-	274,677	-	274,677
Investment loss	(55,617)	-	-	(55,617)	-	(55,617)
Other	101,577	-	-	101,577	-	101,577
TOTAL REVENUE AND OTHER SUPPORT	12,935,829	1,810,839	256,675	15,003,343	(468,401)	14,534,942
EXPENSES						
Program services						
Legislation, regulation and ethics	3,192,992	1,815,007	-	5,007,999	(301,120)	4,706,879
Support of state and local members	1,854,158	-	-	1,854,158	(7,280)	1,846,878
Publications and communication	767,295	-	380,438	1,147,733	(61,485)	1,086,248
Conference	950,043	-	-	950,043	(3,360)	946,683
Member benefits and professional development	1,039,724	-	-	1,039,724	(8,960)	1,030,764
Total Program services	7,804,212	1,815,007	380,438	9,999,657	(382,205)	9,617,452
Supporting services						
Governance and administration	5,005,953	-	105,504	5,111,457	(86,196)	5,025,261
Total Supporting services	5,005,953	-	105,504	5,111,457	(86,196)	5,025,261
TOTAL EXPENSES	12,810,165	1,815,007	485,942	15,111,114	(468,401)	14,642,713
EQUITY IN EARNINGS OF SUBSIDIARY NAIFASC	(229,267)	-	-	(229,267)	229,267	-
CHANGE IN UNRESTRICTED NET ASSETS BEFORE UNRECOGNIZED ACTUARIAL GAIN	(103,603)	(4,168)	(229,267)	(337,038)	229,267	(107,771)
Unrecognized pension gain, net of amortization	593,983	-	-	593,983	-	593,983
CHANGE IN NET ASSETS	$ 490,380	$ (4,168)	$ (229,267)	$ 256,945	$ 229,267	$ 486,212