National Educational Telecommunications Association

Financial Statements
and
Independent Auditor's Report

As of and for the Years Ended
June 30, 2017 and 2016

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Table
of
Contents

THOMAS, WATSON & COMPANY, LLC
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Board of Directors and Management of
the National Educational Telecommunications Association

We have audited the accompanying financial statements of the National Educational Telecommunications Association (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. 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 Educational Telecommunications Association as of June 30, 2017 and 2016, 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.

Thomas, Watson & Dyches, LLC

October 16, 2017

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National Educational Telecommunications Association
Statements of Financial Position
As of June 30,

	2017	2016
Assets		
Current assets:		
Cash	$ 134,558	$ 121,928
Agency cash	30,018	30,231
Investments, at fair value	320,378	325,406
Accounts receivable, net	246,134	294,107
Prepaid expenses and other current assets	42,822	51,392
Total current assets	773,910	823,064
Non-current assets:		
Deferred charges	-	13,568
Other receivable	86,333	87,451
Property and equipment, net	559,411	596,181
Total non-current assets	645,744	697,200
Total Assets	$ 1,419,654	$ 1,520,264
Liabilities and Net Assets		
Current liabilities:		
Line of credit	$ 120,000	$ 266,000
Notes payable, current portion	16,396	15,849
Accounts payable	12,874	45,272
Accrued expenses	114,813	14,268
Agency obligations	30,018	30,231
Unearned revenues	122,915	104,789
Unearned revenues, ancillary groups	180,750	219,114
Total current liabilities	597,766	695,523
Notes payable, less current portion	129,500	146,053
Total liabilities	727,266	841,576
Unrestricted net assets	692,388	678,688
Total Liabilities and Net Assets	$ 1,419,654	$ 1,520,264

See accompanying notes and independent auditor's report

National Educational Telecommunications Association
Statements of Activities
For the Years Ended June 30,

	2017	2016
Unrestricted Net Assets		
Revenues, grants and other support:		
General and administrative	$ 1,575,908	$ 1,523,064
Projects	2,261,067	2,150,004
Special services	91,463	89,383
Investment return	9,807	24,794
Total revenues, grants and other support	3,938,245	3,787,245
Functional expenses:		
Program services	3,086,711	2,854,149
General and administrative	837,834	920,430
Total functional expenses	3,924,545	3,774,579
Increase in unrestricted net assets	13,700	12,666
Unrestricted net assets, beginning of year	678,688	666,022
Unrestricted net assets, end of year	$ 692,388	$ 678,688

See accompanying notes and independent auditor's report

National Educational Telecommunications Association
Statement of Functional Expenses
for the Year Ended June 30, 2017

	Program Services							
	Programming	Education Services	Professional Development	System Support	Business Center	Total Program Services	General and Administrative	Total
Salaries, payroll taxes and employee benefits	$ 343,806	$ 117,471	$ 243,824	$ 113,243	$ 1,624,231	$ 2,442,575	$ 444,355	$ 2,886,930
Contractual services	9,356	3,426	28,702	73,814	17,534	132,832	12,561	145,393
Food and beverage	-	-	89,872	20,630	-	110,502	8,871	119,373
Consultants and honoraria	-	-	-	17,500	-	17,500	83,470	100,970
Staff travel	9,734	1,452	7,290	5,004	-	23,480	60,207	83,687
Network origination	74,476	-	-	-	-	74,476	-	74,476
Board/committee/consultants	-	330	1,200	9,103	-	10,633	35,176	45,809
Dues and publications	155	55	110	31,500	-	31,820	13,531	45,351
Administrative overhead	-	-	-	15,000	27,781	42,781	-	42,781
Depreciation	12,327	977	2,030	1,125	18,187	34,646	6,326	40,972
Audio/visual	-	-	32,755	2,004	-	34,759	940	35,699
Telephone	3,041	1,964	4,272	827	379	10,483	20,982	31,465
Utilities	3,242	810	1,621	-	16,209	21,882	8,104	29,986
Audit and legal	-	-	-	-	-	-	26,468	26,468
Insurance	2,021	723	1,736	1,705	5,465	11,650	12,607	24,257
Bad debts	-	-	-	-	-	-	20,750	20,750
Computer operations and supplies	2,636	1,054	3,145	5,003	5,011	16,849	3,866	20,715
Presidential search	-	-	-	-	-	-	20,293	20,293
Software support	-	-	-	-	2,660	2,660	17,050	19,710
Interest and bank service charges	3,943	222	7,575	522	4,471	16,733	2,218	18,951
Repairs and maintenance	519	130	259	-	2,595	3,503	13,012	16,515
Website development	-	-	-	7,975	-	7,975	6,915	14,890
Promo/photo/film	-	-	5,577	-	-	5,577	3,800	9,377
Supplies	137	57	282	16	1,309	1,801	6,720	8,521
Employee recruitment	-	-	-	-	5,563	5,563	-	5,563
Freight	237	1,161	3,303	23	102	4,826	735	5,561
Hospitality	520	130	260	-	2,598	3,508	1,949	5,457
Data charges	5,080	-	-	-	-	5,080	-	5,080
Printing and duplication	334	61	2,117	147	1	2,660	2,180	4,840
Postage	123	2	16	113	2	256	2,907	3,163
Council	1,236	-	-	-	-	1,236	-	1,236
Miscellaneous	-	-	4,973	-	3,492	8,465	1,841	10,306
Totals	$ 472,923	$ 130,025	$ 440,919	$ 305,254	$ 1,737,590	$ 3,086,711	$ 837,834	$ 3,924,545

See accompanying notes and independent auditor's report

National Educational Telecommunications Association
Statement of Functional Expenses
for the Year Ended June 30, 2016

	Program Services							
	Programming	Education Services	Professional Development	System Support	Business Center	Total Program Services	General and Administrative	Total
Salaries, payroll taxes and employee benefits	$ 318,574	$ 112,281	$ 271,694	$ 113,963	$ 1,434,528	$ 2,251,040	$ 590,903	$ 2,841,943
Contractual services	10,632	4,253	23,736	66,451	32,843	137,915	15,884	153,799
Network origination	79,306	-	-	-	-	79,306	-	79,306
Staff travel	8,362	2,028	4,070	2,561	10,124	27,145	54,064	81,209
Food and beverage	-	-	27,243	16,627	-	43,870	7,121	50,991
Dues and publications	155	55	110	31,750	-	32,070	13,477	45,547
Board/committee/consultants	-	610	-	12,872	-	13,482	49,624	63,106
Telephone	2,329	2,266	2,700	1,392	644	9,331	21,000	30,331
Utilities	3,722	930	1,861	-	17,679	24,192	9,305	33,497
Audio/visual	-	-	36,250	456	-	36,706	-	36,706
Insurance	2,246	729	1,681	1,115	7,377	13,148	20,877	34,025
Depreciation	15,712	932	2,001	984	16,486	36,115	6,254	42,369
Audit and legal	-	-	-	-	-	-	25,079	25,079
Bad debts	-	-	-	-	-	-	10,000	10,000
Software support	-	-	-	-	2,778	2,778	17,835	20,613
Repairs and maintenance	533	133	267	-	2,533	3,466	13,991	17,457
Administrative overhead	-	-	-	19,650	15,269	34,919	-	34,919
Computer operations and supplies	2,349	940	2,934	5,007	4,529	15,759	3,446	19,205
Interest and bank service charges	3,815	213	7,342	518	4,472	16,360	2,128	18,488
Supplies	909	165	715	84	4,091	5,964	9,243	15,207
Consultants and honoraria	-	-	-	1,500	-	1,500	25,550	27,050
Employee recruitment	-	-	-	-	36,990	36,990	-	36,990
Printing and duplication	496	143	2,719	191	1	3,550	4,992	8,542
Freight	2,457	9	2,151	86	785	5,488	790	6,278
Data charges	4,900	-	-	-	-	4,900	-	4,900
Hospitality	610	153	455	-	2,899	4,117	3,766	7,883
Promo/photo/film	-	-	5,120	-	-	5,120	-	5,120
Production	-	-	-	-	1,782	1,782	-	1,782
Website development	-	-	-	-	-	-	8,363	8,363
Postage	116	-	126	162	1,850	2,254	5,476	7,730
Council	1,367	-	-	-	-	1,367	-	1,367
Miscellaneous	-	-	2,963	401	151	3,515	1,262	4,777
Totals	$ 458,590	$ 125,840	$ 396,138	$ 275,770	$ 1,597,811	$ 2,854,149	$ 920,430	$ 3,774,579

See accompanying notes and independent auditor's report

National Educational Telecommunications Association
Statements of Cash Flows
For the Years Ended June 30,

		2017		2016
Cash Flows From Operating Activities				
Change in net assets	$	13,700	$	12,666
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation		40,972		42,369
Bad debts		20,750		10,000
Unrealized losses (gains) on investments		4,984		(3,592)
Gains on sale of investments		-		(7,156)
Decrease (increase) in operating assets:				
Agency cash		213		(97)
Accounts receivable		27,223		(24,413)
Contracts receivable		-		-
Prepaid expenses and other current assets		8,570		(7,810)
Other non-current assets		14,686		50,730
Increase (decrease) in operating liabilities:				
Accounts payable		(32,398)		(4,512)
Accrued expenses		100,545		(6,181)
Agency obligation		(213)		97
Unearned revenues		18,126		(2,318)
Unearned revenues, ancillary groups		(38,364)		59,946
Net cash provided (used) by operating activities		178,794		119,729
Cash Flows From Investing Activities				
Purchases of property and equipment		(4,158)		(20,645)
Purchases of investments		-		(199,885)
Proceeds from sales of investments		-		204,601
Net cash used by investing activities		(4,158)		(15,929)
Cash Flows From Financing Activities				
Increase (decrease) in bank overdraft		-		(50,194)
Net proceeds/principal repayments on line of credit		(146,000)		2,000
Principal repayments on notes payable		(16,006)		(15,361)
Net cash provided (used) by financing activities		(162,006)		(63,555)
Net increase (decrease) in cash		12,630		40,245
Cash, beginning of the year		121,928		81,683
Cash, end of the year	$	134,558	$	121,928
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	$	8,170	$	7,635

See accompanying notes and independent auditor's report

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The National Educational Telecommunications Association (the "Association" or "NETA") is a nonprofit organization of public and educational television entities, incorporated in 1967, serving public television/radio licenses and educational organizations in the United States and its territories. The Association's purpose is to exchange and share educational, instructional, cultural, and other resources to support the public broadcasting industry. The Association provides resources such as annual continuing professional education and develops platforms used to exchange instructional and educational materials and programming.

The Association, through its Business Center, provides accounting and administrative functions primarily for other organizations in the public broadcasting industry.

A summary of the Association's significant accounting policies follows.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, prepaid assets, payables and other liabilities. Revenues and support are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted as described below.

Unrestricted net assets are those currently available for use in the Association's operations.

Temporarily restricted net assets are those that are stipulated by donor restriction for specific purposes or time periods. When a donor restriction is met or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. The Association had no temporarily restricted net assets to report in the accompanying financial statements.

Permanently restricted net assets represent resources that are restricted in perpetuity. Generally, the income generated by these resources is expendable in accordance with the conditions of each specific donation. The Association had no permanently restricted net assets to report in the accompanying financial statements.

Support and Revenue Recognition

Revenues from membership dues, program acquisitions, usage fees, services, and underwriting contracts are recognized in the period earned or stipulated in the agreement(s). Grants for specific projects and activities are recognized as revenue when awarded.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments in mutual funds and equity securities are stated at fair value as determined by quoted market prices and brokerage firm quotations. Fixed income securities are valued using a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system. Purchases and sales of securities are recorded on a trade-date basis; dividends are recorded as of the ex-dividend date; and interest income is recorded on the accrual basis. Realized and unrealized gains and losses are reflected in the accompanying statements of activities.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported.

Accounts Receivable

Accounts receivable consist primarily of membership and Business Center fees and other various receivables. They are carried at original amounts billed, less an estimate for doubtful receivables based on periodic review by management. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience to determine an average allowance percentage. Accounts receivable are written off when deemed uncollectible. Recoveries of amounts previously written off are recorded when received.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at the approximate fair value at date of donation. The Association capitalizes property and equipment costing $1,000 or more. Certain building and improvements are reported at estimated salvage value for fiscal 2014. Repairs and maintenance which do not extend the useful life of an asset are expensed as incurred.

Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	15-31.5
Office furniture, fixtures and equipment	5-10
Computer equipment and software	3-5
Television and radio equipment	6-7
Automobiles	5

Property and equipment are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Deferred Charges

The Association defers certain costs to then match against future revenues for specific and limited projects. Also see Note 5.

Unearned Revenues

Unearned revenues primarily consists of receipts for Association services to be provided in the subsequent year as well as unearned grant proceeds.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Unearned Revenues - Ancillary Groups

Unearned revenues - ancillary groups consists of deferred revenue accounts of NETA-related entities for which funds are separately tracked and held. The related organizations work as a function of NETA to achieve similar objectives for the public broadcasting industry, however, they maintain an independent board of directors utilizing NETA staff for management and day-to-day operational functions.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

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

Income Taxes

The Association is exempt from incomes taxes under Section 501(c)(3) of the Internal Revenue Code but is required to pay taxes on unrelated business income, if any, at statutory rates. The Association had no tax liability on unrelated business income during the years ended June 30, 2017 and 2016. The Association follows the guidance for the accounting for uncertainty in income taxes. Under this guidance, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained.

The Association's Forms 990, *Return of Organization from Income Tax*, are subject to examination by the IRS, generally for three years after filing.

Concentrations of Credit Risk

The Association maintains its cash in bank deposit accounts which, at times, may exceed amounts covered by the insurance provided by the Federal Deposit Insurance Corporation, currently $250,000 as of June 30, 2017. The Association believes that there are no significant risks with respect to such deposits.

The Association does not require collateral or other security on accounts receivable. The credit risk on these accounts is controlled primarily through monitoring procedures.

Subsequent Events

Subsequent events have been evaluated through October 16, 2017, which was the date the financial statements were available to be issued.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

Financial Statement Presentation

The Financial Accounting Standards Board (the "FASB") issued an Accounting Standards Update ("ASU"), "Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities," that decreases the number of net asset classes from three to two. The new classes will be net assets with donor restrictions and net assets without donor restrictions. The standard also requires, among other things, the presentation of qualitative information regarding the management of liquid available resources and liquidity risks as well as the reporting and analysis of expenses by both function and nature.

The standard will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

Leases

The FASB issued an ASU requiring organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Additional disclosure will also be required.

The accounting standards update on leases will be effective for fiscal years beginning after December 15, 2019.

Revenue Recognition

The FASB issued an ASU and subsequent amendments that eliminates the transaction and industry-specific revenue recognition guidance and replaces it with a principle-based approach for determining revenue recognition.

The accounting standards update regarding revenue recognition will be affected for annual reporting periods beginning after December 15, 2018.

Note 2 - Investments

Investments as of June 30, 2017 are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 294,885	$ -	$ 3,607	$ 291,278
Preferred fixed-rate securities	27,500	330	-	27,830
Government mortgage and asset-backed bond funds				
Fannie Mae	1,197	-	103	1,094
Ginnie Mae	8,129	-	8,003	126
Freddie Mac	553	-	503	50
	$ 332,264	$ 330	$ 12,216	$ 320,378

Note 2 - Investments (continued)

Investments as of June 30, 2016 are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 294,885	$ 2,463	$ -	$ 297,348
Preferred fixed-rate securities	27,500	-	813	26,687
Government mortgage and asset-backed bond funds				
Fannie Mae	1,197	-	70	1,127
Ginnie Mae	8,135	-	7,985	150
Freddie Mac	592	-	498	94
	$ 332,309	$ 2,463	$ 9,366	$ 325,406

Fair value amounts are subject to significant fluctuations given the market environment.

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2017 and 2016:

	2017	2016
Interest	$ 14,791	$ 14,046
Realized gains and (losses), net	-	7,156
Unrealized gains and (losses), net	(4,984)	3,592
	$ 9,807	$ 24,794

Note 3 - Accounts Receivable

Accounts receivable as of June 30, 2017 and 2016, are summarized as follows:

	2017	2016
Business Center fees	$ 240,864	$ 273,480
Satellite/handling fees	48,939	45,342
Grants and projects	335	316
Other	1,053	26
Total	291,191	319,164
Less: allowance for doubtful accounts	(45,057)	(25,057)
Accounts receivable, net	$ 246,134	$ 294,107

Note 3 - Accounts Receivable (continued)

Aged receivables as of June 30, 2017 primarily relate to the Business Center fees with the related receivables classified approximately as follows:

Greater than (in days)	Amount
Current	$ 195,454
30	24,749
60	11,968
90	12,207
120	46,813
Total	$ 291,191

The allowance for doubtful accounts increased in fiscal 2017 due to bad debt expense of $20,750.

Note 4 - Other Receivable

Other receivable as of June 30, 2017 and 2016 primarily consisted of amounts due from a public broadcasting related entity for which the Association was under contract for various projects and classified as noncurrent due to the nature of the various projects.

Note 5 - Captive Insurance Program

The Association incurred during the fiscal years ended June 30, 2017 and 2016 certain costs in developing a captive insurance program for the public broadcasting industry. These costs are primarily presented in the accompanying statement of functional expenses. Fee revenues are expected in future years under this program.

The Association contracted with a third party to administer certain aspects of the captive insurance program. Deferred charges in the accompanying statements of financial position as of June 30, 2017 and 2016 included $0 and $13,568, respectively, representing capitalized costs.

Note 6 - Property and Equipment

Property and equipment as of June 30, 2017 and 2016, is summarized as follows:

	2017	2016
Land	$ 170,963	$ 170,963
Buildings and improvements	1,093,566	1,091,631
Computer equipment and software	223,789	221,521
Office furniture, fixtures and equipment	73,081	73,081
Television and radio equipment	113,021	113,021
Automobiles	15,808	15,808
Total	1,690,228	1,686,026
Less: accumulated depreciation	(1,130,817)	(1,089,845)
Property and equipment, net	$ 559,411	$ 596,181

Note 6 - Property and Equipment (continued)

Certain building and improvements totaling approximately $953,000 in costs and $694,000 in accumulated depreciation as of June 30, 2017 were not depreciated in fiscal 2017 and 2016 due to estimated salvage value equaling net book value.

Note 7 - Line of Credit

The Association has a $300,000 unsecured, revolving line of credit. The line of credit agreement is renewed annually and carries a variable interest rate based on a prime rate (4.25% as of June 30, 2017) with interest on borrowings due monthly. Additional borrowings of $180,000 were available as of June 30, 2017. The principal is due at maturity, April 2018.

Note 8 - Notes Payable

Notes payable as of June 30, 2017 and 2016, are summarized as follows:

	2017	2016
Mortgage note payable to a bank; original amount $182,517; monthly principal payments of $1,850 beginning April, 2015 including interest at a fixed rate of 3.95%; balloon payment of $102,279 due March 2020; collateralized by the Association's real estate.	$ 145,896	$ 161,902

Interest expense on the notes payable for the years ended June 30, 2017 and 2016 totaled approximately $8,200 and $7,700, respectively.

Principal repayments on the mortgage note payable as of June 30, 2017 are as follows:

Fiscal Year Ending June 30,	Amount
2018	16,396
2019	17,218
2020	112,282
Total	145,896
Less: current portion	(16,396)
Total notes payable, long-term	$ 129,500

Note 9 - Agency Obligations

The Association serves in an agency capacity providing management and broadcast uplinking for certain organizations engaged in the production of content for public broadcasting. Production funding is primarily provided via donations and grants.

Note 10 - Defined Contribution Retirement Plan

The Association has a defined contribution retirement plan covering substantially all of its employees. The plan requires the Association to contribute an amount equal to seven percent of employee compensation (contingent upon the employee electing at least a five percent contribution and subject to prescribed limitations). Association contributions totaled approximately $112,000 and $124,000 for the years ended June 30, 2017 and 2016, respectively.

Note 11 - Lease Commitments

The Association has two non-cancellable lease agreements for office equipment.

Future minimum lease payments are as follows:

Fiscal Year Ending June 30,		
2018	$	3,336
2019		3,336
2020		1,668
	$	8,340

Lease expense totaled approximately $5,600 and $6,800 for the years ended June 30, 2017 and 2016, respectively.

Note 12 - Fair Value Measurement

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2017 and 2016.

Certificates of deposit: The fair value of certificates purchased directly from financial institutions are estimated using Level 2.

Note 12 - Fair Value Measurement (continued)

Equity and preferred fixed rate securities: Valued at quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1).

Corporate Bonds: Valued at quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1).

Government mortgage and asset-backed bond funds: The fair value of government mortgage and asset-backed bond funds are valued at market prices provided by recognized broker dealers estimated using Level 2.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of June 30, 2017 and 2016:

		Fair Value Measurements as of Reporting Date Using:		
Description	As of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	$ 291,278	$ 291,278	$ -	$ -
Preferred fixed rate securities	27,830	27,830	-	-
Government mortgage and asset-backed bond funds	1,270	-	1,270	-
	$ 320,378	$ 319,108	$ 1,270	$ -

		Fair Value Measurements as of Reporting Date Using:		
Description	As of June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	$ 297,348	$ 297,348	$ -	$ -
Preferred fixed rate securities	26,687	26,687	-	-
Government mortgage and asset-backed bond funds	1,371	-	1,371	-
	$ 325,406	$ 324,035	$ 1,371	$ -

Fair value amounts are subject to significant fluctuations given the market environment.

Interest on certificates of deposit and changes in bond funds are reported in the accompanying statements of activities in investment return.

The carrying amounts for receivables, prepaid expenses and other current assets, accounts payable, deferred revenue, other accrued liabilities and the line of credit approximate fair value because of the nature and terms of these assets and liabilities.

Note 13 - Risks and Uncertainties

The Association is exposed to various risks of loss arising from litigation and claims in the normal course of business. The Association maintains insurance coverage to provide for risks of loss.

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