

NAF

Financial Statements

December 31, 2016

Independent Auditors' Report

The Board of Directors NAF

We have audited the accompanying financial statements of NAF, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 NAF as of December 31, 2016, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited NAF's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent in all material respects, with the audited financial statement from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

PKF O'Connor Davies, LLP

June 19, 2017

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Statement of Financial Position
December 31, 2016
(with comparative amounts at December 31, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,697,755	\$ 762,190
Contributions and grants receivable, net	6,855,362	12,227,431
Other receivables, net of allowance of \$43,952 and \$166,809 in 2016 and 2015	783,897	487,953
Prepaid expenses and other assets	515,147	324,630
Investments	5,858,517	5,881,775
Equipment, furniture and fixtures, net	<u>2,796,616</u>	<u>2,704,504</u>
	<u>\$ 18,507,294</u>	<u>\$ 22,388,483</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,395,803	\$ 1,231,890
Deferred revenue	584,869	502,421
Deferred rent liability	198,226	241,075
Amounts held for others	<u>21,085</u>	<u>21,085</u>
Total Liabilities	<u>2,199,983</u>	<u>1,996,471</u>
Net Assets		
Unrestricted	3,932,676	4,464,768
Temporarily restricted	11,844,635	15,397,244
Permanently restricted	<u>530,000</u>	<u>530,000</u>
Total Net Assets	<u>16,307,311</u>	<u>20,392,012</u>
	<u>\$ 18,507,294</u>	<u>\$ 22,388,483</u>

See notes to financial statements

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Statement of Activities
Year Ended December 31, 2016
(with summarized totals for year ended December 31, 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT AND REVENUE					
Contributions and grants	\$ 1,049,696	\$ 6,443,446	\$ -	\$ 7,493,142	\$ 12,494,530
Membership fees	1,603,815	-	-	1,603,815	1,130,511
Registration fees	772,668	-	-	772,668	872,150
Special event	1,628,631	-	-	1,628,631	1,882,705
Contract revenue	594,261	-	-	594,261	740,983
Interest and dividends, net	125,726	18,356	-	144,082	175,082
Net realized and unrealized (loss) gain on investments	(68,587)	40,801	-	(27,786)	(69,111)
Other income	60,980	-	-	60,980	3,500
Net assets released from restrictions	10,055,212	(10,055,212)	-	-	-
Total Support and Revenue	<u>15,822,402</u>	<u>(3,552,609)</u>	<u>-</u>	<u>12,269,793</u>	<u>17,230,350</u>
EXPENSES					
Program services	<u>11,930,929</u>	<u>-</u>	<u>-</u>	<u>11,930,929</u>	<u>11,999,436</u>
Supporting Services					
Management and general	2,968,003	-	-	2,968,003	2,839,755
Fundraising	<u>1,455,562</u>	<u>-</u>	<u>-</u>	<u>1,455,562</u>	<u>1,228,824</u>
Total Supporting Services	<u>4,423,565</u>	<u>-</u>	<u>-</u>	<u>4,423,565</u>	<u>4,068,579</u>
Total Expenses	<u>16,354,494</u>	<u>-</u>	<u>-</u>	<u>16,354,494</u>	<u>16,068,015</u>
Change in Net Assets	(532,092)	(3,552,609)	-	(4,084,701)	1,162,335
NET ASSETS					
Beginning of year	<u>4,464,768</u>	<u>15,397,244</u>	<u>530,000</u>	<u>20,392,012</u>	<u>19,229,677</u>
End of year	<u>\$ 3,932,676</u>	<u>\$ 11,844,635</u>	<u>\$ 530,000</u>	<u>\$ 16,307,311</u>	<u>\$ 20,392,012</u>

See notes to financial statements

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Statement of Cash Flows
Year Ended December 31, 2016
(with comparative amounts for year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,084,701)	\$ 1,162,335
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	95,692	113,595
Net realized and unrealized loss on investments	27,786	69,111
(Recovery) provision for uncollectable accounts	(75,131)	127,548
Deferred rent	(42,849)	(31,748)
Changes in assets and liabilities		
Contributions and grants receivable	5,372,069	(2,659,322)
Other receivables	(220,813)	45,292
Prepaid expenses and other assets	(190,517)	(147,079)
Accounts payable and accrued expenses	163,913	(154,479)
Deferred revenue	82,448	283,124
Net Cash from Operating Activities	<u>1,127,897</u>	<u>(1,191,623)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, furniture and fixtures	(187,804)	(505,470)
Purchase of investments	(4,597,947)	(5,339,229)
Proceeds from sale of investments	4,593,419	7,325,884
Net Cash from Investing Activities	<u>(192,332)</u>	<u>1,481,185</u>
Net Change in Cash and Cash Equivalents	935,565	289,562
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>762,190</u>	<u>472,628</u>
End of year	<u>\$ 1,697,755</u>	<u>\$ 762,190</u>

See notes to financial statements

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Notes to Financial Statements December 31, 2016

1. **Organization and Tax Status**

NAF was incorporated in July 1988 and began operations in 1989 as an educational organization. The purpose of NAF is to strengthen and expand the pool of high school graduates prepared for college and careers. NAF serves over 95,000 students located in school districts nationwide, specializing in hospitality and tourism (Academy of Hospitality and Tourism), finance (Academy of Finance), information technology (Academy of Information Technology), engineering (Academy of Engineering), and health sciences (Academy of Health Sciences). NAF establishes program goals and produces curriculum and assessments for national distribution to the academies and provides teacher training and on-site assistance to the academies, with a specialization in connecting academies to the business world through a model that offers paid internships to students and advisory boards made up of local professionals.

NAF operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose.

2. **Summary of Significant Accounting Policies**

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

Cash and Cash Equivalents

Cash and cash equivalents represent highly liquid debt instruments with maturities of three months or less at time of purchase, except for those cash equivalents invested for long-term purposes.

Fair Value Measurements

NAF follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

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Notes to Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies *(continued)*

Investments Valuation and Income Recognition

Investments are carried at fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets.

Equipment, Furniture and Fixtures

Equipment, furniture and fixtures are capitalized at cost, when purchased. Web site costs are capitalized when the project is substantially complete and ready for their intended purpose. Depreciation is provided on a straight-line basis over estimated useful lives ranging from 3 to 10 years.

Deferred Rent

NAF leases real property under an operating lease expiring in 2019. The lease calls for escalating rent payments over time, and accordingly, NAF records an adjustment to rent expense each year to reflect recording rent on a straight-line basis in accordance with U.S. GAAP. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent liability in the accompanying statement of financial position.

Amounts Held for Others

Amounts held for others consist of funds held by NAF for several academies that are available to pay for related activities.

Net Asset Presentation

Net assets of NAF and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of NAF or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by NAF, but permit NAF to expend part or all of the income derived therefrom.

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Notes to Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies *(continued)*

Net Asset Presentation (continued)

Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed restrictions or by law. When restrictions on net assets expire, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, those amounts are reported as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets.

Allowance for Doubtful Accounts

NAF determines whether an allowance for uncollectible balances should be provided for receivables. Such estimates are based on, but not limited to, historical collection experience, management's estimates of the credit-worthiness of its borrowers and current economic conditions.

Contributions and Grants

Contributions and grants, which include unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give are recognized initially at fair value as grants and contributions revenue in the period such promises are made by donors. Fair value is estimated by giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Contributions of assets other than cash are recorded at their estimated fair value. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discount is recorded as additional grants and contributions revenue.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

In-Kind Contributions

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized.

During 2016 and 2015, NAF received contributed services primarily in the form of donated course development, consulting services, and legal services. The value of such in-kind contributions, based upon information provided by the third party providing the services was \$535,073 and \$266,175 for the years ended December 31, 2016 and 2015. Such donated services have been reflected on the accompanying statement of activities as contributions and grants revenue.

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Notes to Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies *(continued)*

Membership Fees and Registration Fees

Membership fees consist of a onetime fee for new programs within a school district and an annual fee. Registration fees consist of fees for conferences. These fees are recorded as revenue when earned. Amounts received in advance are recorded as deferred revenue.

Contract Revenue

NAF enters into agreements with school districts to provide additional support for the implementation of NAF's academy model in the year of planning. This most often takes the form of supplemental training and consulting. These agreements are recorded as revenue when invoiced. Amounts received in advance are recorded as deferred revenue.

Special Events

Special event revenue is recognized when the event takes place. Amounts received in advance are reported as deferred revenue.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services areas that were benefited.

Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with NAF's financial statements as of and for the year ended December 31, 2015, from which the summarized comparative information was derived.

Accounting for Uncertainty in Income Taxes

NAF recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that NAF has no uncertain tax positions that would require financial statement recognition or disclosure. NAF is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2013.

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Notes to Financial Statements December 31, 2016

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is June 19, 2017.

3. Concentration of Credit Risk

Financial instruments that potentially subject NAF to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. NAF does not believe that a significant risk of loss, due to the failure of a financial institution presently exists. For the years ended December 31, 2016 and 2015, one donor comprised 28% and 26% in 2016, and 24% and 33% in 2015 of contributions receivable and contribution revenue, respectively. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of credit risk.

4. Contributions and Grants Receivable

Contributions and grants receivable consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Amounts expected to be collected in		
Less than one year	\$4,270,648	\$ 6,701,870
One to five years	1,500,000	5,660,176
Over five years	<u>1,139,745</u>	<u>99,745</u>
	6,910,393	12,461,791
Less discount to present value ranging from 2.26% to 3.42%	<u>(55,031)</u>	<u>(234,360)</u>
	<u>\$6,855,362</u>	<u>\$ 12,227,431</u>

Based on its prior experience with donors and grantors, management expects all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts has been provided.

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Notes to Financial Statements
December 31, 2016

5. Investments

The following are the classes and major categories of investments at December 31, grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis:

	2016		
	Level 1	Level 2	Total
Money market funds	\$ 73,346	\$ -	\$ 73,346
U.S. common stocks	739,180	-	739,180
U.S. government obligations	47,071	-	47,071
Corporate bonds	-	4,278,452	4,278,452
Mutual Funds			
Corporate bonds	704,523	-	704,523
Government bonds	10,789	-	10,789
Fixed income funds	5,156	-	5,156
Total Investment at Fair Value	<u>\$ 1,580,065</u>	<u>\$ 4,278,452</u>	<u>\$ 5,858,517</u>
	2015		
	Level 1	Level 2	Total
Money market funds	\$ 335,165	\$ -	\$ 335,165
U.S. common stocks	933,065	-	933,065
U.S. government obligations	62,042	-	62,042
Corporate bonds	-	3,832,765	3,832,765
Mutual Funds			
Corporate bonds	702,880	-	702,880
Government bonds	10,769	-	10,769
Fixed income funds	5,089	-	5,089
Total Investment at Fair Value	<u>\$ 2,049,010</u>	<u>\$ 3,832,765</u>	<u>\$ 5,881,775</u>

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Notes to Financial Statements
December 31, 2016

6. Equipment, Furniture and Fixtures

As of December 31, equipment, furniture and fixtures consisted of the following:

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 476,032	\$ 413,082
Furniture and fixtures	208,256	208,256
Leasehold improvements	207,497	207,497
Data center, web site, and software development costs	<u>3,614,189</u>	<u>3,489,335</u>
	4,505,974	4,318,170
Less accumulated depreciation	<u>(1,709,358)</u>	<u>(1,613,666)</u>
	<u>\$ 2,796,616</u>	<u>\$ 2,704,504</u>

During April 2014, a vendor providing services for a major capital improvement project filed for Chapter 11 bankruptcy protection. During 2014 NAF identified a new vendor to continue the development of the project. The capitalizable portion of the costs associated with the project of \$2,445,587 are included in data center, web site, and software development costs as of December 31, 2015. As of December 31, 2016, this project is not substantially complete and has not yet been placed in service. As a result of the Chapter 11 bankruptcy filed by the vendor, management evaluated the asset as of December 31, 2016 and determined that no impairment adjustment was required and expects the asset to be placed into service in 2017.

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Notes to Financial Statements December 31, 2016

7. Restricted Net Assets

Temporarily restricted net assets were available for the following purposes and time restrictions as of December 31:

	2016	2015
Work-Based Learning	\$ 2,932,933	\$ 6,162,633
STEM	1,825,000	1,718,473
Academy of Engineering	750,000	1,125,000
Academy of Finance	750,000	-
Academy of Hospitality and Tourism	-	125,000
Growth-Based Initiative	599,744	779,921
Academy Improvement Measurement System (AIMS)	-	250,000
Time restricted for operating purposes	-	1,250,000
Other time and purpose restrictions	4,986,958	3,986,217
Total	\$ 11,844,635	\$ 15,397,244

Temporarily restricted net assets released from restrictions during the year consisted of the following:

	2016	2015
Work-Based Learning	\$ 3,304,700	\$ 2,341,495
California expansion	-	470,240
STEM	1,936,711	1,214,416
NAF Next	-	102,993
Academy of Engineering	375,000	400,000
Academy of Finance	250,000	250,000
Academy of Hospitality and Tourism	217,000	132,500
Growth-Based Initiative	180,176	847,976
Academy Improvement Measurement System (AIMS)	250,000	250,000
Time restricted for operating purposes	1,250,000	1,500,000
Other time and purpose restrictions	2,291,625	2,608,976
Total	\$ 10,055,212	\$ 10,118,596

Permanently restricted net assets as of December 31, 2016 and 2015 are comprised endowment funds, which consist of investments held in perpetuity.

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Notes to Financial Statements December 31, 2016

7. Restricted Net Assets (*continued*)

NAF's permanently restricted assets comprised the following two endowment funds as of December 31, 2016 and 2015:

Aldo Papone Endowment	\$ 500,000
Jesse Blackman Endowment	<u>30,000</u>
Total	<u>\$ 530,000</u>

The Aldo Papone Endowment was established by the American Express Company in 1991 to provide funds for grant awards to outstanding U.S. academy programs.

The Jesse Blackman Endowment was established in 1994 with a contribution from the American Express Company. The purpose of the Jesse Blackman Endowment is to provide funds for a scholarship to an outstanding student in the Hospitality and Tourism program.

8. Endowments

General

NAF maintains donor-restricted funds whose purpose is to provide long term support for its programs. In classifying such funds for financial statement purposes as permanently restricted, temporarily restricted or unrestricted net assets the Board of Directors looks to explicit direction of the donor and provisions of the New York Prudent Management of Institutional Funds Act ("NYPMIFA").

Interpretation of Law

NAF has interpreted NYPMIFA as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary and except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, NAF classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by NYPMIFA.

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Notes to Financial Statements December 31, 2016

8. Endowments *(continued)*

Investment Strategy and Procedure

Permanently restricted funds are those given to NAF with a donor-imposed restriction that the funds are not to be expended but are to be invested for the purpose of generating investment income (as defined by each gift instrument) for the support of NAF. The principal of the funds is to be maintained in perpetuity. The donor may place restrictions on the purpose(s) for which the investment income may be expended. NAF's Board of Directors has a fiduciary responsibility to comply with the restrictions imposed by the donors of permanently restricted funds.

NAF's investment and spending procedure for endowment assets are in accordance with the request of the donor. Endowment assets include those assets of donor-restricted funds that NAF must hold in perpetuity.

In accordance with these procedures, as approved by the Board of Directors, the endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in high-quality diversified manner and adhere to established guidelines.

Changes in endowment net assets for the years ended December 31, are as follows:

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 96,000	\$ 530,000	\$626,000
Interest and dividends, net	18,356	-	18,356
Net realized and unrealized gain	40,801	-	40,801
Appropriation of endowment assets for expenditure	<u>(56,500)</u>	<u>-</u>	<u>(56,500)</u>
Endowment net assets, end of year	<u>\$ 98,657</u>	<u>\$ 530,000</u>	<u>\$628,657</u>
	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 149,585	\$ 530,000	\$679,585
Interest and dividends, net	17,289	-	17,289
Net realized and unrealized loss	(2,374)	-	(2,374)
Appropriation of endowment assets for expenditure	<u>(68,500)</u>	<u>-</u>	<u>(68,500)</u>
Endowment net assets, end of year	<u>\$ 96,000</u>	<u>\$ 530,000</u>	<u>\$626,000</u>

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Notes to Financial Statements December 31, 2016

8. Endowments *(continued)*

Fund Deficiencies

From time to time, the fair value of assets associated with endowment funds may fall below the historic dollar value. Any deficiencies would be reported in unrestricted net assets. There were no such deficiencies at December 31, 2016 and 2015.

Spending Policy

NAF has a policy of appropriating endowment assets for distribution each year in accordance with the endowment donor specifications. Such appropriated assets are granted to students as part of the scholarship program guidelines established by the donors.

Return Objectives and Risk Parameters

NAF has adopted investment and spending policies that attempt to provide a predictable stream of funding programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that NAF must hold in perpetuity or for a donor-specified period(s). To satisfy its long-term rate-of-return objectives, NAF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

9. Pension Plans

NAF has a defined contribution pension plan covering all eligible employees. The plan qualifies as a 401(k) pension plan under the Code. NAF funds the plan on a monthly basis and contributes up to 11% of employees' compensation up to the Social Security wage base. NAF contributes 5% in years one and two, 8% in years three and four, and 11% in year five and thereafter. Compensation paid above the Social Security wage base ceiling is funded by an additional 2%. NAF also has a 403(b) thrift plan under the Code. Employees are permitted to make voluntary contributions to the plan, and NAF matches the employees' contribution at the rate of 50% up to 6% of the employees' compensation. The expense under these plans for the years ended December 31, 2016 and 2015 was \$605,186 and \$466,986.

NAF also maintains a 457 Deferred Compensation Plan (the 457 Plan) for certain senior members of management. The 457 Plan is a nonqualified deferred compensation plan subject to the provisions of the Code Section 457. The expense under this plan was \$18,000 and \$17,500 for the years ended December 31, 2016 and 2015.

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Notes to Financial Statements
December 31, 2016

10. Lease Commitment

NAF has a 10-year 5-month noncancelable operating lease for office space, which expires December 31, 2019. At December 31, 2016, future minimum lease payments were as follows:

Year Ending December 31	
2017	\$ 426,087
2018	437,804
2019	<u>449,853</u>
	<u>\$ 1,313,744</u>

Rent expense for the years ended December 31, 2016 and 2015 was \$406,941 and \$371,835.

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Supplementary Information

December 31, 2016

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Schedule of Functional Expenses
 Year Ended December 31, 2016
 (with summarized totals for the year ended December 31, 2015)

	Supporting Services			Total Supporting Services	2016 Total Expenses	2015 Total Expenses
	Program Services	Management and General	Fundraising			
Salaries and related expenses	\$ 5,198,744	\$ 1,873,773	\$ 835,239	\$ 2,709,012	\$ 7,907,756	\$ 7,364,956
Staff travel	837,938	31,303	15,520	46,823	884,761	826,580
Curriculum and assessment	1,136,868	-	-	-	1,136,868	1,677,786
Consulting and professional fees	1,334,069	838,716	230,847	1,069,563	2,403,632	1,828,184
Rent and occupancy	497,225	99,445	66,297	165,742	662,967	610,211
Scholarships and grants	352,430	-	-	-	352,430	32,850
Program grants	-	-	-	-	-	443,600
Conferences	1,949,824	-	-	-	1,949,824	2,059,926
Special events	-	-	224,483	224,483	224,483	234,627
Other expenses	552,062	110,412	73,607	184,019	736,081	875,700
Depreciation	71,769	14,354	9,569	23,923	95,692	113,595
Total Functional Expenses	\$ 11,930,929	\$ 2,968,003	\$ 1,455,562	\$ 4,423,565	\$ 16,354,494	\$ 16,068,015

See independent auditors' report