Maryland State Education Association, Inc. and Affiliate

Consolidated Financial Report
August 31, 2016

Contents

Independent auditor’s report	1-2
Financial statements	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of cash flows	5
Notes to consolidated financial statements	6-20
Independent auditor’s report on the supplementary information	21
Supplementary information	
Consolidating statement of financial position	22
Consolidating statement of activities	23

Independent Auditor's Report

To the Board of Directors and Members
Maryland State Education Association, Inc.
Annapolis, Maryland

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Maryland State Education Association, Inc. and Affiliate (the Association), which comprise the consolidated statement of financial position as of August 31, 2016, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 Maryland State Education Association, Inc. and Affiliate as of August 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Gaithersburg, Maryland
January 18, 2017

Maryland State Education Association, Inc. and Affiliate

Consolidated Statement of Financial Position
August 31, 2016

Assets	
Current assets:	
Cash and cash equivalents	$ 15,981,023
Accounts receivable	306,855
Notes receivables, current portion	151,197
Prepaid expenses and other assets	267,478
Total current assets	16,706,553
Property and equipment, net	2,090,381
Investments – general activities	1,113,392
Investments – Crisis Fund Trust	2,444,148
Notes receivables, net of current portion	241,890
Prepaid postretirement cost	489,650
Deferred compensation plan investments	508,697
	4,797,777
Total assets	$ 23,594,711
Liabilities and Net Assets	
Current liabilities:	
Accounts payable	$ 271,276
Accrued vacation and other benefits	528,621
Accrued postretirement cost	17,666
Deferred revenue	389,451
Total current liabilities	1,207,014
Long-term liabilities:	
Deferred compensation plan	508,697
Accrued postretirement cost	17,106,181
	17,614,878
Total liabilities	18,821,892
Commitments and contingencies (Notes 9, 10 and 12)	
Net assets:	
Unrestricted:	
Undesignated – general activities	1,082,562
Board designated – Crisis Fund Trust	2,806,657
Board designated – PAC activities	883,600
Total net assets	4,772,819
Total liabilities and net assets	$ 23,594,711

See notes to consolidated financial statements.

Maryland State Education Association, Inc. and Affiliate

Consolidated Statement of Activities
Year Ended August 31, 2016

Revenue:	
MSEA dues	$ 19,644,761
Uniserv revenue	1,629,768
Contribution revenue	651,644
NEA program grant	690,732
Investment income	246,074
Dushane revenue	206,954
Other revenue	130,324
Member benefits revenue	67,368
Convention revenue	48,590
Rent/facilities fee	3,600
Total revenue	23,319,815
Expenses:	
Core operational services	16,121,049
Strong locals	2,215,189
Leading the profession	1,992,266
PAC expenses	187,861
Culture of organizing	20,953
Crisis Fund Trust	12,512
Total expenses	20,549,830
Change in net assets before minimum liability adjustment under retirement benefit plans	2,769,985
Minimum liability adjustment under retirement benefit plans	(6,079,655)
Change in net assets	(3,309,670)
Net assets:	
Beginning	8,082,489
Ending	$ 4,772,819

See notes to consolidated financial statements.

Maryland State Education Association, Inc. and Affiliate

Consolidated Statement of Cash Flows
Year Ended August 31, 2016

Cash flows from operating activities:	
Change in net assets	$ (3,309,670)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	169,478
Realized/unrealized gain on investments	(182,304)
Gain on sale of property and equipment	(7,000)
Changes in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	145,737
Prepaid expenses and other assets	432,338
Prepaid postretirement cost	(255,796)
Increase (decrease) in:	
Accounts payable	63,298
Accrued vacation and other benefits	(20,772)
Deferred revenue	(261,878)
Accrued postretirement cost	6,208,099
Net cash provided by operating activities	2,981,530
Cash flows from investing activities:	
Purchase of property and equipment	(48,409)
Proceeds from sale of property and equipment	7,000
Principal collections on notes receivable	107,777
Purchase of investments	(330,992)
Proceeds from sale of investments	66,062
Net cash used in investing activities	(198,562)
Net increase in cash and cash equivalents	2,782,968
Cash and cash equivalents:	
Beginning	13,198,055
Ending	$ 15,981,023
Supplemental disclosure of cash flow information:	
Cash payments for taxes	$ 16,288

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Maryland State Education Association, Inc. and Affiliate (the Association) is comprised of two entities: Maryland State Education Association, Inc. (MSEA) and Maryland State Education Association Fund for Children and Public Education (PAC), which is a state political action committee.

MSEA was organized to advance, preserve, protect and improve universal free public education; to build a unified and strong profession of educational workers; to provide a strong voice for the rights and interests of educational employees; to advocate economic, human and civil rights for all in an ever more diverse and technological society; and to promote confidence, respect and cooperation among all who are directly or indirectly engaged in educational work in the state of Maryland.

The PAC is entirely funded and overseen by educators in Maryland. Elected officials make decisions every day about salary, class size, benefits, course content, supplies and retirement. The PAC uses contributions to endorse pro-public education candidates up and down the ballot.

A summary of significant accounting policies utilized in the preparation of the consolidated financial statements is as follows:

Principles of consolidation: The consolidated financial statements include the activities of MSEA and its affiliate, PAC. All material inter-entity balances and transactions have been eliminated in the consolidation. MSEA consolidates the PAC's financial statements by virtue of meeting the criteria of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), Reporting of Related Entities by Not-for-Profit Organizations.

Basis of accounting: The consolidated financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Statements of Not-for-Profit Organizations topic of the FASB ASC. Under this standard, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The Association does not have any temporarily restricted or permanently restricted net assets, and consequently, reports only unrestricted net assets. These unrestricted net assets are reported as three separate types of activities, according to their nature and source. These divisions of activities are as follows:

Undesignated – general activities: Represents the portion of unrestricted net assets that are available for support of the Association's operating activities.

Designated – Crisis Fund Trust: Established in 1974 for the purpose of providing financial assistance through loans and/or grants to the Association, local affiliates and members, as provided for under the "Trust Guidelines," as adopted by the MSEA Representative Assembly in 1974 and amended in 2004. In 1984, the trustees lifted the limit of $350,000 and set a goal of at least $1,000,000 for the Crisis Fund Trust's net assets. The Crisis Fund Trust is to be increased each year by its investment income or loss, less operating expenses.

Designated – PAC activities: Represents the portion of unrestricted net assets that are available to support the activities of the PAC.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Cash and cash equivalents: For purposes of reporting cash flows, the Association considers all cash accounts that are not subject to withdrawal restrictions or penalties and all highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Association considers all cash and cash equivalents held in investment accounts to be investments.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no provision for doubtful accounts at August 31, 2016.

A receivable is considered past due if any portion of the receivable balance is outstanding. However, the Association currently does not charge interest on past due receivables.

Property and equipment: Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. MSEA capitalizes all property and equipment purchased with a cost of $1,000 or more.

Valuation of long-lived assets: MSEA accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB ASC Topic, Property, Plant and Equipment that address Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Investments: Investments are carried at fair market value, as discussed in Note 13. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations.

Financial risk: The Association invests in money market funds, marketable equity securities, mutual funds and proprietary funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

The Association maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant financial risk on cash.

Member dues: A substantial portion of MSEA's revenue is derived from member dues. Dues for the state and national level are paid to MSEA. The portion relating to the national dues is collected by MSEA and passed on to the National Education Association (NEA). Revenue received for dues related to subsequent years has been reflected as deferred revenue.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

NEA grant revenue: Grants received for various programs are awarded by NEA through an application process. Grants are recognized in the period earned. Revenue received in advance of being earned is reflected as deferred revenue.

Uniserv revenue: Grants received for the Uniserv program are based on the number of participants and are recognized in the period in which the activities are performed.

Contributions: The PAC collects voluntary contributions from Association members and uses those contributions for political purposes, including but not limited to making contributions and expenditures on behalf of friends of public education who are candidates for state or local office. One-third of the voluntary contributions collected by the PAC are contributed to the NEA Fund. The PAC has no temporarily or permanently restricted contributions as of August 31, 2016, as well as no contributions receivable.

Other revenue: Other revenue is recognized in the period earned. Revenue received in advance of being earned is reflected as deferred revenue.

Postretirement benefits: The cost of retiree benefits is recognized as the employees provide service to the Association. The Association is required to use actuarial methods and assumptions in the valuation of defined benefit obligations and the determination of the expense. Refer to Note 6 for disclosures related to the Association’s pension and other postretirement benefits.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes: MSEA is generally exempt from federal income taxes under the provisions of Section 501(c)(5) of the Internal Revenue Code (the Code). Under current Internal Revenue Service (IRS) regulations, member benefit revenue, which is derived from discount programs offered to members, is subject to unrelated business income tax. For the year ended August 31, 2016, MSEA had $16,288 of tax expense on unrelated business income, which is included in core operational services in the accompanying consolidated statement of activities.

The PAC is subject to income tax on investment income under Section 527(c) of the Code.

The Association’s management evaluated its tax positions and concluded there were no uncertain tax positions that would require adjustment to the consolidated financial statements. The Association had no such positions recorded in the consolidated financial statements at August 31, 2016.

Description of strategic objectives: The following describes the strategic objectives that are outlined in the consolidated statement of activities, as they are set forth in MSEA’s Strategic Plan and Budget:

Core operational services: MSEA will promote an environment to serve and support membership in an efficient and effective manner by hiring, training, educating and retaining qualified staff and leadership, implementing policy and procedures, safeguarding assets, accurately collect and process member contributions, complying with regulatory requirements in a timely manner and encouraging technological advancements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Strong locals: MSEA shall promote strong locals by ensuring that members are informed, engaged and empowered and that a local possesses and is able to execute plans to organize, bargain for, grow and represent its membership successfully.

Leading the profession: MSEA shall promote an environment of leading the profession by proactively driving and improving public policy, professional practice and political discussions at the local, state and federal levels.

Culture of organizing: MSEA shall promote a culture of organizing by creating deliberate processes and outreach to continually engage members, develop strong relationships with and among members and effectively reflect and mobilize membership.

Adopted accounting pronouncement: In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820); Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Association adopted this ASU for the year ended August 31, 2016.

Upcoming accounting pronouncements: In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. This ASU is effective for fiscal years beginning after December 15, 2018. The Association has not yet selected a transition method and is currently evaluating the effect that the ASU will have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations*. The amendments in this ASU are intended to improve the guidance on principal versus agent considerations. The effective date for this ASU is the same as the effective date for ASU No. 2014-09, *Revenue from Contracts with Customers*. The Association is currently assessing the potential impact of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Association is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through January 18, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

A summary of the market value of investments at August 31, 2016, is as follows:

Undesignated – general activities:	
Money market funds	$ 67,721
Mutual funds	1,045,671
	1,113,392
Board designated – Crisis Fund Trust:	
Mutual funds	1,224,187
Marketable equity securities	1,115,778
Money market funds	104,183
	2,444,148
	$ 3,557,540

Investment income for the year ended August 31, 2016, consists of the following:

Dividends and interest	$ 63,770
Realized/unrealized net gain on investments	182,304
	$ 246,074

Note 3. Notes Receivables

During the year ended August 31, 2008, MSEA loaned $400,000 to one of its local organizations, the Montgomery County Education Association (MCEA), in order to assist MCEA in acquiring a building. The annual interest rate on the note was 2.62%.

During fiscal year 2010, MSEA paid off MCEA's construction loan for the building and issued a new note for the balance of the previous loan and the construction loan, for an amount of $682,890. The annual interest rate on the note is 4%; however, MSEA may elect to raise the interest rate one time during the life of the note to the five-year U.S. Treasury Rate, not to exceed 6%. Monthly payments of principal and interest of $8,787 are due on the note through maturity on December 1, 2017. The note is unsecured. The balance of the note at August 31, 2016, was $129,171.

Note 3. Notes Receivables (Continued)

During the year ended August 31, 2014, MSEA loaned $180,000 to one of its local organizations, the Washington County Teacher's Association (WCTA), in order to assist WCTA in acquiring a new office and making office improvements. The annual interest rate on the note is 4%; however, MSEA may elect to raise the interest rate one time during the life of the note to the ten-year U.S. Treasury Rate, not to exceed 6%. Monthly payments of principal and interest of $1,094 are due on the note through maturity on June 1, 2034. The note is unsecured. The balance of the note at August 31, 2016, was $167,249.

In August 2015, MSEA loaned WCTA an additional $100,000 for improvements to their new office. The net proceeds from the sale of the current WCTA office are due to MSEA by the 1st of the month following the sale and will be used to reduce the principal of the loan. The annual interest rate on the note is 4%; however, MSEA may elect to raise the interest rate one time during the life of the note to the ten-year U.S. Treasury Rate, not to exceed 6%. Monthly payments of principal and interest of $606 begin on September 1, 2015, and are due through maturity on August 1, 2035. The note is unsecured. The balance of the note at August 31, 2016, was $96,667. WCTA sold the office in September 2016 and used the net proceeds of $40,650 to reduce the principal of the loan.

Principal amounts on all notes to be received at August 31, 2016, are due in future years as follows:

Years ending August 31:	
2017	$ 151,197
2018	35,964
2019	9,291
2020	9,669
2021	10,064
Thereafter	176,902
	$ 393,087

Interest earned on the notes receivables was $18,072 for the year ended August 31, 2016.

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at August 31, 2016, and depreciation expense for the year ended August 31, 2016, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Building and improvements	10-40 years	$ 3,928,797	$ 2,405,727	$ 1,523,070	$ 129,693
Furniture, equipment and computer software	3-7 years	820,967	772,831	48,136	26,105
Land	–	516,300	-	516,300	-
Vehicles	3-5 years	138,437	135,562	2,875	13,680
		$ 5,404,501	$ 3,314,120	$ 2,090,381	$ 169,478

Note 5. Deferred Compensation Plan

MSEA receives contributions from certain employees, which are deposited into a deferred compensation plan. Upon their retirement, participants make an irrevocable election to defer payment to a later date or begin to receive distributions. These funds have a fair value measured at NAV upon which MSEA's creditors may attach; therefore, this fair value is shown as an asset with an offsetting liability for the deferred compensation due to the employees.

Note 6. Retirement Plans

MSEA sponsors a defined benefit pension plan that covers substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement, based primarily upon years of service with MSEA and compensation rates near retirement. MSEA's funding policy is to make annual contributions as needed, based upon the funding formula recommended by the plan's actuary.

MSEA also has a postretirement health plan that covers certain eligible employees meeting certain eligibility requirements, from retirement (if at least 55 years of age) to age 65.

Subject to the provisions of the collective bargaining agreements effective September 1, 2014, employees who are first hired on or after September 1, 2014, shall contribute 3% of their compensation (as defined by the pension plan) to the pension plan.

Furthermore, for current employees hired prior to September 1, 2014, each employee shall commence contributions to the plan effective September 1, 2015, as follows:

September 1, 2015	1%
September 1, 2016	2%

Note 6. Retirement Plans (Continued)

The funded status and amounts recognized in the accompanying consolidated statement of financial position relating to the retirement programs, as of the measurement dates, are as follows:

	Pension Benefits	Other Benefits
Obligations and funded status at end of year:		
Fair value of plan assets	$ 26,746,609	$ 897,189
Benefit obligations	42,682,321	1,595,674
Funded status at end of year	$ (15,935,712)	$ (698,485)
Amounts recognized in statement of financial position as:		
Non-current assets	$ 489,650	$ -
Current liabilities	-	(17,666)
Non-current liabilities (1)	(16,425,362)	(680,819)
	$ (15,935,712)	$ (698,485)
Accumulated benefit obligation for defined benefit pension plan	$ 33,883,452	N/A
Change in benefit obligation:		
Benefit obligation, beginning of year:	$ 33,424,302	$ 1,115,237
Actuarial loss	932,762	336,708
Service cost	2,117,818	69,927
Interest cost	1,441,468	39,572
Discount rate/mortality table change	5,792,464	105,164
Benefits paid	(1,026,493)	(70,934)
Benefit obligation, end of year	$ 42,682,321	$ 1,595,674

(1) These amounts have not yet been recognized in the net periodic benefit costs. Amounts to be amortized into net periodic benefit cost in the fiscal year ending August 31, 2017, are expected to approximate $1.15 million.

Note 6. Retirement Plans (Continued)

Change in plan assets:		
Fair value, beginning of year	$ 23,054,590	$ 803,055
Actual returns on plan assets, net	1,502,734	52,603
Contributions (employer and employee)	3,215,778	112,465
Benefits paid	(1,026,493)	(70,934)
Fair value, end of year	$ 26,746,609	$ 897,189
Funded status	$ (15,935,712)	$ (698,485)
Unrecognized actuarial loss (1)	16,425,362	680,819
	489,650	(17,666)
Current pension payable	-	(17,666)
Prepaid pension	$ 489,650	$ -
Components of net periodic:		
Benefit cost:		
Service cost	$ 2,117,818	$ 69,927
Interest cost	1,441,468	39,572
Return on assets	(1,392,379)	(21,154)
Amortization of prior service cost	8,693	9,849
Amortization of loss	733,432	43,422
	$ 2,909,032	$ 141,616

(1) These amounts have not yet been recognized in the net periodic benefit costs. Amounts to be amortized into net periodic benefit cost in the fiscal year ending August 31, 2017, are expected to approximate $1.15 million.

Assumptions: Weighted-average assumptions used to determine net periodic pension cost and benefit obligations are as follows:

	Pension Benefits	Other Benefits
Discount rate to determine obligation at end	3.41%	3.41%
Discount rate for net periodic benefit cost	4.25%	4.25%
Expected long-term rate of return on plan assets	5.80%	5.80%
Rate of increase in compensation	4.50%	N/A

The expected long-term rate of return assumption is developed actuarially based on the intended investment of plan assets and an analysis long-term capital markets expected returns. Health care cost trend rates are not applicable to the postretirement health plan obligation and cost as the dollar benefit is fixed by the plan.

Note 6. Retirement Plans (Continued)

Plan assets: The plan's weighted-average asset allocations at August 31, 2016, by asset category, are as follows:

	Pension Benefits	Other Benefits
Cash and cash equivalents	1%	1%
Mutual funds – fixed income	37%	37%
Mutual funds – equities	57%	57%
Commodities	5%	5%
	100%	100%

Contributions: MSEA contributed $3,105,000 and $73,000 during the year to the pension plan and postretirement health plan, respectively, for the year ended August 31, 2016. There was no minimum required contribution for the plans for the year ended August 31, 2016.

Estimated future benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension	Other
Years ending August 31:		
2017	$ 866,500	$ 36,214
2018	1,025,425	53,797
2019	1,242,908	60,591
2020	1,452,004	58,858
2021	1,619,376	90,440
2022-2026	9,529,573	354,558

MSEA has established an investment policy for its pension plan assets that the trustees of the plan deem appropriate. The objectives of the policy are to construct and manage a portfolio of assets that is adequate to support the liability associated with the plan's defined benefit obligation. The investment policy links the management of plan assets to the liabilities.

Note 6. Retirement Plans (Continued)

The fair values of MSEA's plan assets at August 31, 2016, by fair value level category as defined in Note 13, are as follows:

		Fair Value Measurements Using		
Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equity:				
Large blend	$ 7,773,036	$ 7,773,036	$ -	$ -
International	7,970,059	7,970,059	-	-
	15,743,095	15,743,095	-	-
Fixed income:				
Short-term bond	3,090,186	3,090,186	-	-
Intermediate-term bond	7,133,616	7,133,616	-	-
	10,223,802	10,223,802	-	-
Money market funds	336,502	336,502	-	-
Total assets classified at fair value	$ 26,303,399	$ 26,303,399	$ -	$ -
Total plan assets:				
Classified at fair value	$ 26,303,399			
Held at NAV (a)	1,311,410			
Held at cost	28,989			
	$ 27,643,798			

(a) In accordance with ASC Topic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The plan assets held at NAV is fund of funds in a commodity fund (the Fund). The Fund has observable NAVs per share, or the equivalent, and is able to be redeemed by MSEA monthly. The objective of the Fund is to provide an enhancement to an investor's portfolio of financial investments and to provide a partial inflation hedge, with an attractive risk/return profile as compared to other products using a commodity index or a pool of commodities.

Note 7. Profit-Sharing Plan

MSEA has a defined contribution profit-sharing plan (the Plan) under the provisions of Section 401(k) of the Code. The Plan is established under a collective bargaining agreement with the MSEA Professional Staff Association and the Maryland State Teacher's Association Staff Organization (MSTASO). The Plan covers all benefit eligible employees on the first of the month following initial employment. MSEA matches 100% of employee contributions, up to a maximum of $4,080 for each MSTASO Plan participant and up to $4,500, for all other Plan participants for the year ended August 31, 2016. Participants can contribute, subject to IRS limitations. Participants are 100% vested immediately.

Employer contributions to the Plan for the year ended August 31, 2016, totaled $283,083.

Note 8. Agency Transactions

For the year ended August 31, 2016, MSEA received $465,648 from NEA, to be distributed by MSEA to affiliates as directed by NEA. The receipt and subsequent distribution of these funds were accounted for as pass-through transactions and are thus not reflected in the accompanying consolidated statement of activities.

For the year ended August 31, 2016, MSEA also collected $11,541,246 of dues from members, which were distributed by MSEA to NEA. The receipt and subsequent disbursement of these funds were accounted for as pass-through transactions, and are thus not reflected in the accompanying consolidated statement of activities.

Note 9. Commitments and Contingencies

MSEA is a member of the National Educational Employees Assistance Fund, Inc. (NEEAF), which entitles MSEA to the use of funds up to a predetermined limit for loans to striking teachers and educational support personnel. MSEA's membership in this organization is based upon its delivery of a letter of credit to NEEAF in the amount of $137,172 at August 31, 2016.

The letter of credit is secured by a portion of MSEA's $400,000 line of credit and a commitment of NEA. Advances on the line of credit will bear interest at the bank's prime rate. The line of credit and letter of credit are renewed annually and expire on March 31, 2017. There were no borrowings on this line of credit or letter of credit at August 31, 2016.

The Association has an employment agreement with its executive director, which expires in August 2020. Under the terms of the agreement, the executive director is entitled to the lesser of two year's salary or the remainder of the contract, whichever is less, should his employment be terminated without cause during the contract period.

Note 10. Litigation

From time to time, MSEA may be involved in various legal actions arising in the normal course of business. After taking into consideration legal counsel's evaluation of such actions, management is of the opinion that any potential liability arising from these claims against MSEA, not covered by insurance, would be minimal.

For certain legal expenses incurred, MSEA receives a 50% reimbursement from NEA, which is used to reduce legal fees incurred on these cases.

Note 11. Functional Expense Breakdown

Functional expenses for the year ended August 31, 2016, consist of the following:

Affiliates and advocacy	$ 10,528,630
Administration	4,014,047
Public affairs	3,490,813
Governance	1,441,614
Legal	1,062,214
Crisis Fund Trust expenses	12,512
	$ 20,549,830

Note 12. Leases

MSEA has a lease for a parking lot located in Annapolis, Maryland, for a period of 20 years through June 30, 2033, a lease for housing through July 31, 2017, and an equipment lease through April 30, 2017.

Future minimum rental payments for the leases are as follows:

Years ending August 31:	
2017	$ 111,881
2018	57,756
2019	59,488
2020	60,968
2021	61,273
Thereafter	873,379
	$ 1,224,745

Rent expense for the year ended August 31, 2016, was $122,108.

Note 13. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC defines fair value as 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, and sets out a 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). Inputs are broadly defined under this standard as assumptions that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the standard are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and holdings in certain corporate bonds funds.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation, as described below.

In determining the appropriate levels, the Association performs a detailed analysis of the assets and liabilities that are subject to the standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The Association holds no Level 3 assets.

Note 13. Fair Value Measurements (Continued)

The following table presents the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis in the statement of financial position at August 31, 2016:

		Fair Value Measurements Using		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable equity securities:				
Technology	$ 261,532	$ 261,532	$ -	$ -
Services	247,048	247,048	-	-
Financial	187,662	187,662	-	-
Consumer goods	129,804	129,804	-	-
Healthcare	129,192	129,192	-	-
Basic materials	80,046	80,046	-	-
Industrial goods	60,006	60,006	-	-
Conglomerates	20,488	20,488	-	-
	1,115,778	1,115,778	-	-
Fixed income mutual fund:				
Short-term bond	934,291	934,291	-	-
Intermediate-term bond	871,120	871,120	-	-
	1,805,411	1,805,411	-	-
Equity mutual fund:				
Small blend	353,066	353,066	-	-
Large blend	56,428	56,428	-	-
Foreign large blend	54,952	54,952	-	-
	464,446	464,446	-	-
Money market funds	160,940	160,940	-	-
	$ 3,546,575	$ 3,546,575	$ -	$ -
Liabilities:				
Deferred compensation plan	$ (508,697)	$ -	$ (508,697)	$ -
	$ (508,697)	$ -	$ (508,697)	$ -

The Association's money market funds, mutual funds and marketable equity securities are priced based on quoted market prices in active markets and, therefore, are classified as Level 1 items. The deferred compensation liability is based on the fair market value of the deferred compensation plan assets that have observable inputs, but the liability is not publicly traded, and therefore, is classified as Level 2. At August 31, 2016, investments include $10,965 of cash and cash equivalents reported at cost and, therefore, are not included on the schedule above.

Note 13. Fair Value Measurements (Continued)

The deferred compensation investments are invested in proprietary funds comprised of stock and bond mutual funds, REITs and utilities in mid-cap and large-cap growth and value investment strategies. NAVs for these funds are valued daily and can be liquidated within two weeks of redemption. In accordance with ASC Topic 820-10, these investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy on the schedule on the previous page.

Note 14. Net Assets

The Association's unrestricted net assets are further classified as undesignated and board designated funds. The designated funds include the Crisis Fund Trust and the PAC.

The following table shows the change in total unrestricted net assets during the year ended August 31, 2016:

	Unrestricted – Designated		Unrestricted Undesignated	
	Crisis Fund	PAC	General Fund	Total
Balance, August 31, 2015	$ 2,627,670	$ 395,882	$ 5,058,937	$ 8,082,489
Change in unrestricted net assets	178,987	487,718	2,103,280	2,769,985
Change in net assets due to pension and postretirement related changes	-	-	(6,079,655)	(6,079,655)
Balance, August 31, 2016	$ 2,806,657	$ 883,600	$ 1,082,562	$ 4,772,819

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors and Members
Maryland State Education Association, Inc.
Annapolis, Maryland

We have audited the consolidated financial statements of Maryland State Education Association, Inc. and Affiliate (the Association) as of and for the year ended August 31, 2016, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating information is presented for purposes of additional analysis rather than to present the financial position and changes in net assets of the individual entities and 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Gaithersburg, Maryland
January 18, 2017

Maryland State Education Association, Inc. and Affiliate

Consolidating Statement of Financial Position
August 31, 2016

	MSEA	PAC	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 15,108,384	$ 872,639	$ 15,981,023
Accounts receivable	306,855	-	306,855
Notes receivable, current portion	151,197	-	151,197
Prepaid expenses and other assets	267,478	-	267,478
Total current assets	15,833,914	872,639	16,706,553
Property and equipment, net	2,090,381	-	2,090,381
Investments – general activities	1,102,427	10,965	1,113,392
Investments – Crisis Fund Trust	2,444,148	-	2,444,148
Notes receivable, net of current portion	241,890	-	241,890
Prepaid postretirement cost	489,650	-	489,650
Deferred compensation plan investments	508,697	-	508,697
	4,786,812	10,965	4,797,777
Total assets	$ 22,711,107	$ 883,604	$ 23,594,711
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 271,272	$ 4	$ 271,276
Accrued vacation and other benefits	528,621	-	528,621
Accrued pension cost	17,666	-	17,666
Deferred revenue	389,451	-	389,451
Total current liabilities	1,207,010	4	1,207,014
Long-term liabilities:			
Deferred compensation plan	508,697	-	508,697
Accrued postretirement cost	17,106,181	-	17,106,181
	17,614,878	-	17,614,878
Total liabilities	18,821,888	4	18,821,892
Commitments and contingencies			
Net assets:			
Unrestricted:			
Undesignated – general activities	1,082,562	-	1,082,562
Board designated – Crisis Fund Trust	2,806,657	-	2,806,657
Board Designated – PAC activities	-	883,600	883,600
Total net assets	3,889,219	883,600	4,772,819
Total liabilities and net assets	$ 22,711,107	$ 883,604	$ 23,594,711

Maryland State Education Association, Inc. and Affiliate

Consolidating Statement of Activities
Year Ended August 31, 2016

	MSEA	PAC	Total
Revenue:			
MSEA dues	$ 19,644,761	$ -	$ 19,644,761
Uniserv revenue	1,629,768	-	1,629,768
Contribution revenue	-	651,644	651,644
NEA program grant	690,732	-	690,732
Dushane revenue	206,954	-	206,954
Investment income	246,064	10	246,074
Member benefits revenue	67,368	-	67,368
Convention revenue	48,590	-	48,590
Other revenue	106,399	23,925	130,324
Rent/facilities fee	3,600	-	3,600
Total revenue	22,644,236	675,579	23,319,815
Expenses:			
Core operational services	16,121,049	-	16,121,049
Strong locals	2,215,189	-	2,215,189
Leading the profession	1,992,266	-	1,992,266
Culture of organizing	20,953	-	20,953
Crisis Fund Trust	12,512	-	12,512
PAC expenses	-	187,861	187,861
Total expenses	20,361,969	187,861	20,549,830
Change in net assets before minimum liability adjustment under benefit plans	2,282,267	487,718	2,769,985
Minimum liability adjustment under retirement benefit plans	(6,079,655)	-	(6,079,655)
Change in net assets	(3,797,388)	487,718	(3,309,670)
Net assets:			
Beginning	7,686,607	395,882	8,082,489
Ending	$ 3,889,219	$ 883,600	$ 4,772,819