

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

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REPORT OF INDEPENDENT AUDITORS

To the Executive Committee and Members of the
National Education Association of the United States

We have audited the accompanying consolidated financial statements of the National Education Association of the United States and its subsidiaries (NEA), which comprise the consolidated statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Education Association of the United States and its subsidiaries as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying information included on pages 33 through 48 is presented for purposes of additional analysis of the basic 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 information has been subjected to the auditing procedures applied in the audit 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.

Calibre CPA Group, PLLC

Bethesda, MD
December 2, 2016

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 200,783,125	\$ 195,396,489
Membership dues receivable - net of allowance	30,901,684	31,893,138
Amount due from affiliates and other organizations - net of allowance	1,748,220	1,577,473
Accounts receivable	6,915,286	4,675,827
Notes receivable	1,050,000	1,000,000
Prepaid expenses	10,673,830	6,828,713
Deferred income taxes	354,737	374,383
Other current assets	308,810	283,948
Total current assets	252,735,692	242,029,971
LONG-TERM ASSETS		
Notes receivable - net of current portion	5,324,320	5,374,320
Deferred rent assets	282,615	368,503
Deferred leasing commission	140,438	183,725
Investments	43,305,642	45,585,498
Pension asset	10,770,466	11,588,285
Property and equipment - net of accumulated depreciation	68,126,355	59,243,239
Total long-term assets	127,949,836	122,343,570
Total assets	\$ 380,685,528	\$ 364,373,541
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 23,809,950	\$ 14,785,126
Accrued liabilities	18,916,936	14,212,580
Deferred income	1,668,039	2,194,962
Accrued annual leave	6,727,847	6,627,010
Amount held for affiliates and other organizations	1,149,288	1,170,743
Total current liabilities	52,272,060	38,990,421

See accompanying notes to financial statements.

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AUGUST 31, 2016 AND 2015

	2016	2015
LONG-TERM LIABILITIES		
Grant commitment	\$ 400,000	\$ 500,000
Accrued severance payable	5,873,707	5,922,654
Deferred income	16,252,183	16,263,897
Deferred income taxes	3,057,125	3,345,317
Total long-term liabilities	25,583,015	26,031,868
Total liabilities	77,855,075	65,022,289
UNRESTRICTED NET ASSETS		
Undesignated net assets	175,318,915	167,173,328
Designated net assets	127,511,538	132,177,924
Total unrestricted net assets	302,830,453	299,351,252
Total liabilities and net assets	\$ 380,685,528	\$ 364,373,541

See accompanying notes to financial statements.

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES		
UNRESTRICTED REVENUES		
NEA programs:		
Dues	\$ 362,188,445	\$ 359,483,089
Other	3,211,246	4,150,557
Total NEA programs	365,399,691	363,633,646
Member Benefits programs:		
Program revenues - suppliers	53,675,613	51,479,593
Other	152,767	481,653
Total Member Benefits programs	53,828,380	51,961,246
NEA Properties:		
Rental income	1,565,110	2,022,676
Other	93,127	109,627
Total NEA Properties	1,658,237	2,132,303
Total unrestricted revenues	420,886,308	417,727,195
EXPENSES		
Program services:		
NEA programs	302,170,880	284,819,044
Member Benefits programs	43,258,653	42,286,841
NEA Properties	1,487,692	1,616,521
Total program services	346,917,225	328,722,406

See accompanying notes to financial statements.

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES		
EXPENSES (CONTINUED)		
Support services:		
NEA programs	\$ 60,955,080	\$ 58,170,369
Member Benefits programs	7,579,256	8,200,009
NEA Properties	208,978	210,349
Total support services	68,743,314	66,580,727
Total expenses	415,660,539	395,303,133
CHANGE IN NET ASSETS FROM OPERATIONS	5,225,769	22,424,062
NON-OPERATING ACTIVITIES		
CHANGE IN PENSION OBLIGATION OTHER THAN NET		
PERIODIC PENSION COST AND OTHER CHARGES	(1,746,568)	(5,331,182)
CHANGE IN NET ASSETS	3,479,201	17,092,880
NET ASSETS		
Beginning of year	299,351,252	282,258,372
End of year	\$ 302,830,453	\$ 299,351,252

See accompanying notes to financial statements.

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,479,201	\$ 17,092,880
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	4,847,806	5,255,747
Bad debt expense	781,441	125,930
Net realized gain on investments	(4,398)	(431,126)
Net unrealized (gain) loss on investments	(978,689)	2,220,946
Write-off of furniture and equipment	13,888	13,479
Deferred income taxes	(268,546)	(3,474,045)
Changes in assets and liabilities:		
Decrease (increase) in membership dues receivable	210,013	(641,987)
(Increase) decrease in amount due from affiliates and other organizations	(170,747)	261,956
(Increase) decrease in accounts receivable	(2,239,459)	2,889,648
Increase in prepaid expenses	(3,845,117)	(3,850,957)
Increase in other current assets	(24,862)	(6,133)
Decrease (increase) in deferred rent assets	85,888	(368,503)
Decrease in deferred leasing commission	43,287	69,696
Decrease in prepaid pension asset	817,819	6,817,867
Increase in accounts payable	9,024,824	1,231,516
Increase in accrued liabilities	4,704,356	33,427
Increase in accrued annual leave	100,837	136,819
(Decrease) increase in amount held for affiliates and other organizations	(21,455)	119,071
Decrease in grant commitment	(100,000)	(100,000)
Decrease in accrued severance payable	(48,947)	(50,157)
(Decrease) increase in deferred income	(538,637)	56,881
Net cash provided by operating activities	15,868,503	27,402,955

See accompanying notes to financial statements.

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of notes receivable	\$ (1,000,000)	\$ (100,939)
Repayment of notes receivable	1,000,000	1,100,939
Purchases of investments	(7,932,709)	(12,304,065)
Proceeds from sale of investments	11,195,652	10,461,711
Purchases of property and equipment	(13,744,810)	(7,378,667)
Net cash used in investing activities	(10,481,867)	(8,221,021)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,386,636	19,181,934
CASH AND CASH EQUIVALENTS		
Beginning of year	195,396,489	176,214,555
End of year	\$ 200,783,125	\$ 195,396,489
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - CASH PAID DURING THE YEAR		
Interest	\$ 1,076	\$ 5,204
Income taxes	\$ 1,414,394	\$ 680,243

See accompanying notes to financial statements.

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 1. ORGANIZATION

The National Education Association of the United States (NEA) is a not-for-profit organization incorporated under an Act of the United States Congress. Its mission statement reads: “our mission is to advocate for education professionals and to unite our members and the nation to fulfill the promise of public education to prepare every student to succeed in a diverse and interdependent world.”

To help realize this mission, the NEA adopted a vision of “a great public school for every student.” This vision guided NEA’s strategic plan and budget, which is organized around two Strategic Goals and six Core Function Areas.

The Strategic Goals address two key challenges:

- *Strong Affiliates for Great Public Schools* - In partnership with state and local affiliates, NEA will aggressively advance an organizing culture designed to build capacity to grow membership, increase member activism, improve fiscal health, enhance public education, and assist affiliates in fending off attacks to member rights and union strength.
- *Uniting the Nation for Great Public Schools* - In partnership with state and local affiliates, NEA will empower educators to collaborate with school and community stakeholders to co-create solutions designed to shape the future of education, improve student learning, achieve educational equity, enhance professional practice and the quality of professionals, and advance successful solutions that drive national, state, and district level policies.

The Core Function areas address regular, ongoing programs and services:

- *Research, Policy, and Practice for Great Public Schools* - Track and identify practices that have been successful in encouraging student learning or in shaping the future of learning. In partnership with organizations supportive of educator led transformation of public education, use key learnings and research to develop, identify, and implement national, state, and district policies that facilitate these practices.

NOTE 1. ORGANIZATION (CONTINUED)

- *Organizing* - In partnership with state and local affiliates, NEA will aggressively advance an Association-wide ‘culture of organizing’ and engage members as a collective by supporting affiliates to activate our vast network in pursuit of the vision.
- *Advocacy and Outreach* - In partnership with state and local affiliates and other organizations supportive of educator-led transformation of public education, advocate educators’ positions to national, state and district policymakers, education stakeholders, and the public (with priority focus on parents, ethnic minority communities, and labor partners) in order to influence policy development and debates to achieve equity of opportunity, access, and quality in public education; advance our members’ views and expertise about policy for great public schools for every student; promote social justice; and advance and preserve members’ voices, rights, and optimal conditions for teaching and learning.
- *Communications* - Utilize the best communication strategies to engage affiliates, members, partners, parents and communities.
- *Business Operations* - Administer the business operations in a manner that supports the changing needs and priorities of the organization and ensures efficient and effective infrastructure that supports good fiscal management, uses technology for innovation and strengthens NEA’s human capital.
- *Governance* - In partnership with leadership, develop professional development and decision making processes that clearly advance the organization’s mission and vision.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of NEA and its wholly owned subsidiaries: NEA Properties, Inc. (NEAPI), NEA’s Member Benefits Corporation (MBC), and MBC’s wholly-owned subsidiary, the NEA Professional Services Corporation, NEA Advocacy Fund, NEA360 LLC (NEA360), and an affiliated entity, National Education Employees Assistance Fund, Inc., (NEEAF). NEAPI’s primary purpose is to hold title to and manage certain commercial real property in Indiana, collect income from that property and periodically surrender the net proceeds derived to NEA. MBC serves as a contractor for NEA’s member benefits functions. The NEA Advocacy Fund was established as a separate segregated fund to engage in exempt function advocacy. The NEA Advocacy Fund is registered with the Federal Election Commission and files reports with the FEC as required. NEA360 is an entity that was established to finance and implement a new state-of-the-art membership management system (the NEA360 System) in furtherance of NEA’s mission of advancing public education and MBC’s mission to develop and promote member benefits. NEEAF is combined with the accounts of NEA due to common control and an economic interest. All intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measure of Operations - NEA includes in its measure of operations all revenue and expenses that are integral to its continuing core program services with the key objective being predictability of indicated results. Non-operating income and expenses include unrealized appreciation (depreciation) and defined benefit pension charges included in the change in pension obligation other than net periodic pension cost and other charges.

Basis of Accounting - The accompanying consolidated statements are prepared on the accrual basis of accounting. To ensure observance of its bylaws, the resources of NEA are classified internally for accounting and reporting purposes into funds established according to their nature and purpose. The assets, liabilities, net assets, and changes in net assets are reported in the following two fund groups:

- ***General Operating Fund*** - The bylaws of NEA provide that the General Operating Fund shall comprise all income received in the form of dues, interest, dividends, fees, earnings from advertising, sales of NEA publications, payments for services, and funds received by gift, bequest, devise, or transfer to NEA, which are not specifically designated for deposit in the Capital Improvement Fund.
- ***Special Purpose Funds*** - The Special Purpose Funds are grouped for reporting purposes into Related Entity, Bylaw, and Other Special Purpose Funds. The Related Entity Special Purpose Funds are Member Benefits Corporation (MBC), NEA Properties, Inc. (NEAPI), NEA360 LLC (NEA360), NEA Advocacy Fund, and the National Education Employees Assistance Fund (NEEAF). The Bylaw mandated Special Purpose Funds are the Capital Improvement Fund, Great Public Schools Fund, Special Dues Ballot Fund, Special Dues Media Fund and the UniServ Fund. The Other Special Purpose Funds are the Cash Stabilization, External Partnership Grants, Infrastructure Reserve Fund, National Issues Advancement Fund, Membership Organizing, and the NEA-Life Membership Fund.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant items subject to such estimates and assumptions include the deferred revenue, useful life of fixed assets, pension liability, reserve for uncollectible receivables, reserve for contingent liabilities, and deferred tax. Actual results could differ materially, in the near term, from the amounts reported.

Concentration of Risks - Financial instruments that potentially subject NEA to significant concentrations of credit risk principally consist of cash, accounts receivable, and investments. NEA places its cash in a financial institution that is federally insured under the Federal Depository Insurance Corporation (FDIC). At August 31, 2016, the cash aggregate balances were in excess of the FDIC insurance limits by approximately \$205,627,000 and therefore, bear some risk, since they were not collateralized. NEA has not experienced any losses on its cash to date related to FDIC insurance limits.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MBC had material revenues from two entities representing approximately 33 percent and 44 percent of revenues, respectively, for the year ended August 31, 2016, and approximately 34 percent and 43 percent of revenues, respectively, for the year ended August 31, 2015. As of August 31, 2016, two entities accounted for approximately 9 percent and 49 percent of MBC's accounts receivable, respectively. As of August 31, 2015, two entities accounted for approximately 13 percent and 38 percent of MBC's total accounts receivable, respectively.

Cash and Cash Equivalents - Cash equivalents consist of interest-bearing deposits and securities with original maturity of less than three months when purchased and are recorded at cost, which approximates fair value.

Investments - Investments consist of mutual funds and exchange traded funds and are recorded at fair value, with any gains or losses reflected in the consolidated statements of activities and changes in net assets. Net realized gains from operating activities were \$4,398 and \$431,126 for the years ended August 31, 2016 and 2015, respectively. The net unrealized gain included in operating activities was \$832,262 and the unrealized gain included in non-operating activities was \$146,427, for a total net unrealized gain of \$978,689 for the year ended August 31, 2016. The net unrealized loss included in operating activities was \$1,866,892 and the unrealized loss included in non-operating activities was \$354,054, for a total net unrealized loss of \$2,220,946 for the year ended August 31, 2015.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives range from 2 to 15 years for furniture, fixtures, and equipment and 25 to 40 years for buildings and leasehold improvements.

NEA capitalizes direct costs incurred during the application development and implementation stages for developing software for internal use. These software costs are depreciated using the straight-line method over the estimated useful life of the software, generally three to five years. All costs incurred during the preliminary project stage are expensed as incurred.

Depreciation and amortization expense was \$4,847,806 and \$5,255,747 for the years ended August 31, 2016 and 2015, respectively, and is reflected in NEA's support services expenses in the consolidated statements of activities and changes in net assets.

Accrued Severance Payable - NEA has a policy entitling employees with over 10 years of service to severance pay equal to 10 weeks of salary. NEA's accrued severance pay has been calculated in accordance with Accounting Standards for *Compensation-Nonretirement Postemployment Benefits*.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEA-Life Membership Fund (NEA-Life) - NEA offers life membership through a Special Purpose Fund known as the NEA-Life Membership Fund. NEA-Life dues qualify retired members for certain services provided to active members, as well as services designed specifically for retired persons. NEA-Life dues income is recorded as deferred income when received and amortized using the straight-line method over the estimated life expectancy of its members.

Membership Dues - Membership dues are recognized as income over the membership year, which is September 1 through August 31. Dues are assessed to members as provided in the bylaws. An estimated provision for uncollectible receivables, write-offs, and cancellations is charged against membership dues revenues.

In accordance with the bylaws, a percentage of the membership dues is allocated to UniServ grants, which are included in NEA's program services expenses, whereby NEA provides grants to state affiliates to assist in funding their staff representatives, whose responsibilities are to implement, improve, and coordinate programs of NEA and the state affiliates.

Program Revenue - MBC's program revenues from suppliers represent fees from contracts with various program suppliers. Fees are recognized as revenue in the period in which they are earned.

Rental Revenue - NEAPI rents office space to various tenants. Rental revenue from operating leases is recognized on a straight-line basis over the term of the lease.

Income Taxes - NEA follows the authoritative guidance relating to accounting for uncertainty in income taxes included in the Accounting Standards Codification (ASC) Topic on *Income Taxes*. These provisions provide consistent guidance for the accounting for the uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. NEA believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. NEA Form 990, *Return of Organization Exempt from Income Tax*, for the fiscal years 2013 through 2015, are subject to examination by the Internal Revenue Service (IRS), generally for three years after they were filed.

NOTE 3. INVESTMENTS

Investments, at fair value, consist of the following at August 31:

	<u>2016</u>	<u>2015</u>
Equity securities		
Mutual funds - common stocks	\$ 16,111,063	\$ 16,079,489
Exchange traded funds	<u>1,668,772</u>	<u>-</u>
Total equity securities	<u>17,779,835</u>	<u>16,079,489</u>
Debt securities		
Mutual funds - fixed income	20,586,475	21,374,107
Exchange traded funds	<u>4,939,332</u>	<u>8,131,902</u>
Total debt securities	<u>25,525,807</u>	<u>29,506,009</u>
Total investments	<u>\$ 43,305,642</u>	<u>\$ 45,585,498</u>

NOTE 4. NOTES RECEIVABLE

On May 16, 2009, NEA entered into a long-term promissory note agreement with the Indiana State Teachers Association (ISTA) to provide supplemental support and direct loans. The promissory note was unsecured and bore interest at one half of one percent above the London Interbank Offered Rate (LIBOR) per annum. On January 13, 2014, the promissory note was reduced to \$15,000,000 and is payable in full on or before January 1, 2028. The new loan bears a fixed interest rate of 2.5%. ISTA will receive an annual discount equivalent to the annual interest accrued if all payments are received by due dates for the fiscal year. As of August 31, 2016 and 2015, the total outstanding note balance is \$11,500,000 and \$12,500,000, respectively. Due to the unsecure nature of the ISTA promissory note, NEA recognized an uncollectible allowance of \$6,125,680 for fiscal years ended August 31, 2016 and 2015.

On March 1, 2016, NEA entered into a five-year promissory note agreement with National Board for Professional Teaching Standards (NBPTS). The promissory note was secured and bore no interest. As of August 31, 2016, the outstanding note balance is \$1,000,000.

The total outstanding note balance is \$12,500,000 as of August 31, 2016.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31:

	<u>2016</u>	<u>2015</u>
Land		
NEA headquarters	\$ 1,753,777	\$ 1,753,777
MBC headquarters	837,002	837,002
NEA Properties	1,943,982	1,943,982
Building improvements		
NEA headquarters	82,969,726	82,351,581
MBC headquarters	7,355,741	6,510,447
NEA Properties	15,794,262	15,616,118
Furniture, fixtures, and equipment	28,813,073	27,728,691
Software development costs	<u>64,575,327</u>	<u>53,570,369</u>
	204,042,890	190,311,967
Less: accumulated depreciation and amortization	<u>(135,916,535)</u>	<u>(131,068,728)</u>
Total property and equipment	<u>\$ 68,126,355</u>	<u>\$ 59,243,239</u>

NOTE 6. COMMITMENTS AND CONTINGENCIES

MBC leases office space and personal property under non-cancelable operating leases expiring through 2019. Future minimum lease payments under these leases are as follows:

Year Ending August 31,	
2017	\$ 109,167
2018	106,374
2019	<u>15,676</u>
Total future minimum lease payments	<u>\$ 231,217</u>

Rental expense for all operating leases was approximately \$112,000 and \$65,000 for the years ended August 31, 2016 and 2015, respectively.

NEA has been named as a party to a legal matter, the outcome of which cannot presently be determined. In the opinion of management, an appropriate provision has been made to account for probable losses and the ultimate resolution of this matter will not have a material impact on NEA's consolidated financial position or changes in net assets and cash flows.

NOTE 6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Department of Labor is conducting a review of certain issues surrounding the NEA Members Insurance Plan of which NEA is the sponsor and administrator. The outcome of this review is unknown at this time.

NOTE 7. RETIREMENT BENEFITS

Employee's Retirement Plan of the National Education Association of the United States - NEA participates in a multiemployer, defined benefit retirement plan for NEA employees that covers substantially all permanent employees. On June 1, 2009, the plan was amended to require employee contributions at a rate of 3.5% for employees hired by NEA on or after June 9, 2009. NEA employs approximately 48% of the employees covered under the plan; the remaining 52% are employees of participating state and local affiliates of NEA.

NEA contributes to the multiemployer pension plan jointly administered by NEA's management and union representatives. The risk of participating in U.S. multiemployer pension plans is different from single employer pension plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits of employment to other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If NEA stops participating in its multiemployer pension plan, it may be required to pay the plan an amount based on the underfunded status of the entire plan.

NEA's participation in the above defined benefit plan for the years ended August 31, 2016, 2015 and 2014 is outlined in the following table. All information in the table is as of August 31 of the relevant year unless otherwise noted. The Pension Protection Act (PPA) zone status column ranks the funded status of multiemployer pension plans depending upon a plan's current and projected funding. The zone status is based on information that the NEA received from the plan. Among other factors, the plan is in the Red Zone (Critical) if it has a current funded percentage of less than 65%. A plan is in the Yellow Zone (Endangered) or Orange Zone (Seriously Endangered) if it has a current funded percentage of less than 80%, or projects a credit balance deficit within seven years. A plan is in the Green Zone (Healthy) if it has a current funded percentage greater than 80% and does not have a projected credit balance deficit within seven years.

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

The following table contains information about NEA’s multiemployer pension plan for the years ended December 31, 2015 and 2014.

EIN/Pension Plan Number	Pension Protection Act Zone Status December 31,		Contributions by NEA			Employer Contributions (Y/N)		Expiration Date of Collective- Bargaining Agreement
	2015	2014	8/31/2016	8/31/2015	8/31/2014	2015	2014	
53-0115260	Green	Green	\$ 20,718,803	\$ 19,887,510	\$ 19,681,283	Y	Y	AFSE 6/1/2014 to 5/31/2017; IUOE 2/1/2014 to 1/31/2017; NEASO 6/1/2015 to 5/31/2018

For the years ended December 31, 2015 and 2014, NEA was listed on the Plan’s 5500 as providing more than five (5) percent of the total contributions for the Plan years. NEA currently has no intention of withdrawing from this multiemployer pension plan.

NEA – 401(k) Retirement Savings Plan - NEA’s employees are also eligible to participate in the 401(k) Retirement Savings Plan of the National Education Association (the Plan) in which the employee can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Subsection 401(k) and has received a favorable determination as to its tax status. NEA’s contributions to the Plan amounted to \$302,063 and \$896,000 for the years ended August 31, 2016 and 2015, respectively.

NEA – Postretirement Benefit Plan - In addition to providing pension benefits, NEA provides certain healthcare and life insurance benefits to retirees. Prior to March 1, 2000, NEA provided these benefits under a single employer defined postretirement plan.

Effective March 1, 2000, NEA established and adopted the National Education Association and Affiliate Retiree Health Plan (the Plan) and Trust (the Trust) for the purpose of providing certain healthcare and life insurance benefits to eligible and retired employees of NEA and to participating affiliates. The plan is a multiemployer postretirement benefits plan. The Internal Revenue Service has approved the Plan and the Trust.

As a result of the adoption of the multiemployer plan, the Trust assumed the responsibility for the payment of benefits and all future obligations under the Plan. NEA’s liability under the single employer plan as of March 1, 2000, which amounted to \$29,427,901 was recognized as a non-operating charge in NEA’s consolidated statements of activities and changes in net assets. As of August 31, 2016 and 2015, none of NEA’s net assets were reserved for postretirement benefit obligation.

Postretirement benefit expense under the multiemployer plan was \$11,100,000 and \$15,385,092 for the years ended August 31, 2016 and 2015, respectively.

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

MBC – 401(k) Salary Deferral Plan - NEA's Member Benefits Corporation (MBC) maintains a Section 401(k) cash or deferred plan in which the employees can make voluntary, tax-deferred contributions within specific limits. The Plan was established under the provision of the Internal Revenue Code Subsection 401(k), and has received a favorable determination as to its tax status. MBC's contributions to the Plan, based upon a set percentage of employee contributions, amounted to \$278,168 and \$251,643, for the years ended August 31, 2016 and 2015, respectively.

MBC – Defined Contribution Plan - MBC maintains a Defined Contribution Plan and Trust, which is noncontributory for MBC's employees, and covers substantially all members of the NEA Staff Organization (NEASO) Collective Bargaining Unit. MBC contributes to the Plan a percentage of compensation as set forth in a collective bargaining agreement with NEASO. MBC's contributions to the Plan during the years ended August 31, 2016 and 2015 were \$738,945 and \$760,189, respectively.

MBC – Defined Benefit Plan - MBC maintains a noncontributory defined benefit pension plan covering substantially all employees not covered by a collective bargaining agreement. MBC has an August 31 measurement date for its pension plan.

Benefit obligation, plan assets, and the funded status of the Plan at August 31 were as follows:

	<u>2016</u>	<u>2015</u>
Benefit obligation	\$ 35,229,777	\$ 28,978,747
Fair value of plan investments	46,000,243	40,567,032
Funded status of the Plan	10,770,466	11,588,285

The discount rate used in the calculation of the benefit obligation decreased to 3.25% from 4.25%.

Contributions to the Plan and benefits paid for the year ended August 31 were as follows:

	<u>2016</u>	<u>2015</u>
Employer contributions	\$ 3,541,121	\$ 909,239
Benefits paid	441,906	359,531

Amounts recognized in the Statements of Financial Position consisted of:

	<u>2016</u>	<u>2015</u>
Non-current assets	\$ 10,770,466	\$ 11,588,285

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

Amounts recognized in Accumulated Other Non-Operating Income consisted of:

	<u>2016</u>	<u>2015</u>
Net actuarial loss	\$ 15,729,817	\$ 11,976,023
Prior service cost	<u>2,283,581</u>	<u>2,977,980</u>
Total (before tax effects)	18,013,398	14,954,003
Tax effects	<u>(6,838,162)</u>	<u>(5,743,460)</u>
	<u>\$ 11,175,236</u>	<u>\$ 9,210,543</u>

The accumulated benefit obligation is \$31,877,844 and \$26,131,315 at August 31, 2016 and 2015, respectively.

Net periodic cost (benefit) is \$1,299,545 and \$(353,633) for the years ended August 31, 2016 and 2015, respectively.

Other changes in Plan assets and benefit obligation recognized in Other Non-Operating Income (before tax effects) were as follows:

	<u>2016</u>	<u>2015</u>
Net loss	\$ 5,004,871	\$ 8,775,138
Prior service cost	(1,251,077)	-
Amortization of prior service cost	<u>(694,399)</u>	<u>(694,399)</u>
Total recognized in other non-operating income	<u>\$ 3,059,395</u>	<u>\$ 8,080,739</u>
Total recognized in net periodic benefit cost and other non-operating income	<u>\$ 4,358,940</u>	<u>\$ 7,727,106</u>

Amounts expected to be recognized in Net Periodic Cost in the coming year are as follows:

	<u>2017</u>
Recognized loss	\$ 1,836,599
Prior service cost recognition	694,399

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

Weighted-average assumptions used to determine benefit obligations at August 31 were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	3.25%	4.25%
Rate of salary increases	4.00%	4.00%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended August 31 were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	4.25%	4.25%
Rate of salary increases	4.00%	4.00%
Expected long-term rate of return on asset	8.00%	8.00%

MBC determines the long-term expected rate of return on Plan assets by examining historic capital market returns, correlations between asset classes and the Plan's normal asset allocation. Current and near-term market factors such as inflation and interest rates are then evaluated to arrive at the expected return on Plan assets. Peer group, or benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

MBC utilizes a total return investment approach based on modern portfolio theory. Multiple asset classes are implemented in order to obtain the benefits of diversification and maximize long-term total return for a given level of risk. Risk tolerance is developed by reviewing the funded status of the Plan, duration of the Plan liabilities, the income and liquidity requirements, legal constraints, and the financial condition of MBC. The investment portfolio is comprised of a diversified combination of equities, fixed income securities, alternative investments, and cash equivalents. MBC's investment policy states that the target allocations for Plan assets are 64 percent equity securities, 22 percent fixed income securities, 10 percent alternative investments, and 4 percent cash equivalents. The allocation among equities and fixed income securities is determined by prevailing market conditions and relative valuations between asset classes. The Plan's financial condition is monitored on an ongoing basis by means of quarterly investment portfolio reviews, an annual independent actuarial valuation, and periodic asset/liability studies.

Pension plan allocations at August 31 were as follows:

	<u>2016</u>	<u>2015</u>
Equities	58%	62%
Fixed income securities	20%	27%
Alternative investments	14%	10%
Cash equivalents	8%	1%
Total	<u>100%</u>	<u>100%</u>

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

During the year ended August 31, 2016, a contribution to the Plan was made on August 25, 2016. Therefore, the asset allocation reflected above indicates a higher allocation in cash equivalents at August 31 than typically exists throughout the year due to the fact that the contribution has not yet been invested in securities at fiscal year end.

The fair value of MBC's pension plan assets at August 31, 2016 by asset class are as follows (Levels defined in Note 14):

Asset Class	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 3,794,406	\$ 3,794,406	\$ -	\$ -
Equity securities				
U.S. large-cap	14,006,687	14,006,687	-	-
U.S. mid-cap	3,019,537	3,019,537	-	-
U.S. small-cap	3,399,939	3,399,939	-	-
REIT	1,920,120	1,920,120	-	-
International	4,092,990	4,092,990	-	-
Emerging markets	298,226	298,226	-	-
Other investment funds				
Equity long/short (a)	2,961,865	2,961,865	-	-
Fixed income securities				
U.S. fixed income	7,398,043	7,398,043	-	-
International fixed income	1,543,388	1,543,388	-	-
Alternative investments				
Hedge funds (b)	3,565,041	-	-	3,565,041
	<u>\$ 46,000,242</u>	<u>\$ 42,435,201</u>	<u>\$ -</u>	<u>\$ 3,565,041</u>

- (a) This mutual fund class includes funds that by prospectus, have the ability to take both long and short positions within the portfolio. The primary investment vehicle is Exchange Traded Funds (ETFs). The manager of this fund has the ability to rotate investments between various equity styles: value, growth and/or blended, as well as multiple market capitalizations: large-cap, mid-cap, and small-cap.
- (b) This is a private, commingled investment vehicle which is not registered as an investment company, issues securities only to accredited investors or qualified purchases under an exemption from registration, and engages primarily in strategic trading of securities and other financial instruments.

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

A reconciliation of fair value measurements using significant unobservable inputs (Level 3) as of August 31, 2016 was as follows:

<u>Change in Level 3 Category</u>	<u>Hedge Funds</u>
Beginning balance - 9/1/2015	\$ 1,907,832
Purchases	2,000,000
Net losses (realized/unrealized)	<u>(342,791)</u>
Ending balance - 8/31/2016	<u>\$ 3,565,041</u>

The fair value of MBC's pension plan assets at August 31, 2015 by asset class are as follows:

<u>Asset Class</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Market for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 402,724	\$ 402,724	\$ -	\$ -
Equity securities				
U.S. large-cap	14,462,370	14,462,370	-	-
U.S. mid-cap	2,389,501	2,389,501	-	-
U.S. small-cap	3,234,374	3,234,374	-	-
REIT	1,528,663	1,528,663	-	-
Global equity	814,953	814,953	-	-
International	1,426,007	1,426,007	-	-
Emerging markets	1,413,527	1,413,527	-	-
Other investment funds				
Equity long/short (a)	2,284,697	2,284,697	-	-
Fixed income securities				
U.S. fixed income	6,058,035	6,058,035	-	-
International fixed income	4,644,349	4,644,349	-	-
Alternative investments				
Hedge funds (b)	<u>1,907,832</u>	<u>-</u>	<u>-</u>	<u>1,907,832</u>
	<u>\$ 40,567,032</u>	<u>\$ 38,659,200</u>	<u>\$ -</u>	<u>\$ 1,907,832</u>

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

- (a) This mutual fund class includes funds that by prospectus, have the ability to take both long and short positions within the portfolio. The primary investment vehicle is Exchange Traded Funds (ETFs). The manager of this fund has the ability to rotate investments between various equity styles: value, growth and/or blended, as well as multiple market capitalizations: large-cap, mid-cap, and small-cap.
- (b) This is a private, commingled investment vehicle which is not registered as an investment company, issues securities only to accredited investors or qualified purchases under an exemption from registration, and engages primarily in strategic trading of securities and other financial instruments.

A reconciliation of fair value measurements using significant unobservable inputs (Level 3) as of August 31, 2015 was as follows:

<u>Change in Level 3 Category</u>	<u>Hedge Funds</u>
Beginning balance - 9/1/2014	\$ 2,000,000
Purchases	<u>(92,168)</u>
Ending balance - 8/31/2015	<u>\$ 1,907,832</u>

The following estimates and assumptions were used to determine the fair value of each class of financial instruments listed above.

- *Cash equivalents* - Cash equivalents include cash deposits in investment funds, money market funds, and short-term U.S. Treasury securities, which are actively traded. Cash equivalents are priced using independent market prices in the primary trading market, and are classified as Level 1 based on the availability of quotes for identical assets.
- *Equity securities* - Equity investments include stocks, separately held accounts, and mutual funds. These securities are valued daily based on the quoted market price at the end of the business day. These assets, which are grouped by investment objective, consist of publicly traded securities, diversified globally, and are classified as Level 1.
- *Fixed income securities* - These assets include mutual funds with fixed income portfolios. These assets are valued using market prices, such as broker quotes, for the same instruments; as these securities typically traded in active markets, they are categorized as Level 1.
- *Alternative investments* - Valued based on information provided by Fund manager.

NOTE 7. RETIREMENT BENEFITS (CONTINUED)

For fiscal year 2017, MBC expects to contribute the maximum deductible amount to its pension plan as determined by the January 1, 2016 actuarial valuation.

Benefit payments expected to be paid over the next five years and accumulated over the five years thereafter are as follows as of August 31:

2017	\$ 673,857
2018	861,132
2019	1,032,378
2020	1,178,943
2021	1,315,289
2022-2026	8,342,350

NOTE 8. NATIONAL EDUCATION EMPLOYEES ASSISTANCE FUND, INC.

The National Education Employees Assistance Fund, Inc. (NEEAF) is a nonprofit corporation established for the purpose of providing financial and other assistance to member organizations and their individual members involved in disputes over terms and conditions of employment. In this capacity, NEEAF, from time to time, has guaranteed loans made by lending institutions to members who were involved in such disputes. These loans are collateralized by letters of credit from those state affiliates that are members of NEEAF. NEA commits the unrestricted resources of the General Operating Fund to fulfill its obligation. NEA's commitment and the state affiliates' line of credit is approximately \$6,247,490. In the event of default on a loan, the bylaws of NEEAF provide that the bank shall first draw upon the letter of credit of the state affiliate from which the funds were transmitted and, thereafter, proportionately from all other letters of credit and/or lines of credit.

NOTE 9. THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

The NEA Foundation for the Improvement of Education (NFIE) was created in 1969 by NEA as a tax-exempt public charity to improve the quality of public education in the United States. The NFIE has a separate Board of Directors and operates independently of NEA. Accordingly, the accompanying financial statements do not include the activities of NFIE.

The NFIE empowers public education employees to innovate, take risks, and become agents for change to improve teaching and learning in our society.

During the years ended August 31, 2016 and 2015, payments totaling \$1,878,030 and \$1,886,423, respectively, were made to NFIE for an endowment that will help fund programs to meet critical needs of students and education employees in years to come. Such amounts are reflected as reductions in "NEA Programs—Dues" in the consolidated statements of activities and changes in net assets for the years ended August 31, 2016 and 2015.

NOTE 10. NEA HEALTHY FUTURES

NEA Healthy Futures, a legally separate 501(c)(3) not-for-profit organization, was created in 1987 (as NEA Health Information Network) to provide a link between the education and health professions to assure that public school employees and their students have the knowledge and skills necessary to make decisions that enhance the quality of their lives, improve the environment in which they work and learn, and build relationships within the communities they serve.

NEA Healthy Futures manages and implements programs that provide health and wellness solutions, advocacy tools, and funding and resource opportunities for NEA members and the education community at large. NEA Healthy Futures secures funds from public and private sources to implement these programs.

NEA Healthy Futures establishes collaborative partnerships with other public and private entities to enhance the content and scope of its activities and to bring the education employee/student perspective into the planning and development process of relevant health initiatives at the national, state, and local levels.

NEA's appropriations for NEA Healthy Futures for the years ended August 31, 2016 and 2015 were \$412,500 and \$550,000, respectively.

On March 11, 2016, the NEA Healthy Futures Board of Directors adopted a resolution to dissolve the entity effective August 31, 2016. NEA Healthy Futures sold or transferred all of its tangible and intangible assets in accordance with a dissolution plan adopted by the Board of Directors. Any cash and investments remaining after all liabilities are satisfied will be transferred to the NFIE.

NOTE 11. NEA MEMBERS INSURANCE TRUST

The National Education Association Members Insurance Trust (NEA-MIT) was organized to provide certain employee welfare benefits to NEA members and their dependents, pursuant to the NEA Members Insurance Plan.

NEA is the sponsor and administrator of the welfare plans that NEA-MIT provides. NEA may appoint and remove the trustees of NEA-MIT. NEA-MIT maintains an agreement with MBC to provide administrative and promotional services for the programs.

NEA and NEA-MIT have an agreement whereby NEA provided systems administration, maintenance, software development and facilities management in the amount of \$581,351 and \$598,872 for the years ended August 31, 2016 and 2015, respectively.

NOTE 12. INCOME TAXES

Under provisions of Section 501(c) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, NEA is exempt from taxes on income, other than taxes on unrelated business income.

NOTE 12. INCOME TAXES (CONTINUED)

MBC follows the liability method of accounting for income taxes as required by the FASB Accounting Standards *Income Taxes*. Income tax expense is recognized based on the amount of income taxes currently payable or refundable plus the net change during the year in the deferred tax liability or asset. The current or deferred tax consequences of all events that have been recognized in the consolidated financial statements are measured based on provisions of enacted tax law.

The provision for Federal and State income taxes is included in MBC's support service expenses on the consolidated statements of activities and changes in net assets and consists of the following:

	<u>2016</u>	<u>2015</u>
Current provision		
Federal	\$ (447,180)	\$ 961,835
State	<u>(48,201)</u>	<u>119,815</u>
	<u>(495,381)</u>	<u>1,081,650</u>
Deferred provision		
Federal	846,382	(326,199)
State	<u>51,472</u>	<u>(44,236)</u>
	<u>897,854</u>	<u>(370,435)</u>
Total	<u>\$ 402,473</u>	<u>\$ 711,215</u>

A reconciliation of income taxes at the statutory rate to the provision for income taxes in the financial statements is as follows:

	<u>2016</u>	<u>2015</u>
Federal income tax provision at the statutory rate	\$ 411,893	\$ 532,658
State income tax expense, net of federal benefit	33,390	45,573
Permanent differences	(11,579)	128,675
Temporary differences	<u>(31,231)</u>	<u>4,309</u>
Total	<u>\$ 402,473</u>	<u>\$ 711,215</u>

NOTE 12. INCOME TAXES (CONTINUED)

At August 31, 2016 and 2015, the deferred tax assets and liabilities represent the tax effects of the following temporary differences:

	<u>2016</u>	<u>2015</u>
Assets		
Deferred income	\$ 759,225	\$ 867,986
Accrued vacation	289,523	277,357
State taxes	371,317	353,816
Other	<u>161,015</u>	<u>26,539</u>
Gross deferred tax assets	<u>1,581,080</u>	<u>1,525,698</u>
Liabilities		
Pension costs	(4,111,745)	(4,450,771)
Other	<u>(171,723)</u>	<u>(45,861)</u>
Gross deferred tax liabilities	<u>(4,283,468)</u>	<u>(4,496,632)</u>
Total	<u>\$ (2,702,388)</u>	<u>\$ (2,970,934)</u>

Amounts recognized in the consolidated statements of financial positions at August 31:

	<u>2016</u>	<u>2015</u>
Current		
Deferred tax asset	\$ 404,542	\$ 420,244
Deferred tax liability	<u>(49,805)</u>	<u>(45,861)</u>
	<u>354,737</u>	<u>374,383</u>
Non-current		
Deferred tax asset	1,060,058	1,105,454
Deferred tax liability	<u>(4,117,183)</u>	<u>(4,450,771)</u>
	<u>(3,057,125)</u>	<u>(3,345,317)</u>
Total	<u>\$ (2,702,388)</u>	<u>\$ (2,970,934)</u>

NOTE 14. FAIR VALUE MEASUREMENTS

Accounting standards for fair value measurements defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Accounting standards for fair value measurements 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. That framework provides a fair value hierarchy that prioritizes the inputs to the 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 inputs) and the lowest priority to measurements involving significant unobservable inputs (Level 3 inputs). The three levels of the hierarchy are as follows:

- *Level 1* - Observable inputs such as quoted prices for identical assets or liabilities in active markets;
- *Level 2* - Inputs other than the quoted prices in active markets that are observable, either directly or indirectly such as 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 or inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- *Level 3* - Unobservable inputs in which there is little or no market data, which requires management to develop its own assumptions.

The asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to their fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation techniques used for assets measured at fair value:

- *Money market funds* -Valued at cost, which approximates fair value. Valuation is from an unadjusted quoted price;
- *Exchange traded funds* -Valued at the closing price reported in an active market in which the securities are traded; and
- *Mutual funds - equity and fixed income securities* -Valued at trading value on an exchange and is calculated at the end of each business day.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while NEA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents NEA's fair value hierarchy for financial assets measured on a recurring basis at August 31, 2016:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 770,225	\$ 770,225	\$ -	\$ -
Exchange traded funds	6,608,104	6,608,104	-	-
Mutual funds - equity securities				
Growth funds	4,907,916	4,907,916	-	-
Value funds	6,592,277	6,592,277	-	-
Blend funds	4,610,870	4,610,870	-	-
Mutual funds - fixed income securities				
U.S. fixed income fund	20,586,475	20,586,475	-	-
	<u>\$ 44,075,867</u>	<u>\$ 44,075,867</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents NEA's fair value hierarchy for financial assets measured on a recurring basis at August 31, 2015:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 896,818	\$ 896,818	\$ -	\$ -
Exchange traded funds	8,131,902	8,131,902	-	-
Mutual funds - equity securities				
Growth funds	5,492,505	5,492,505	-	-
Value funds	9,314,974	9,314,974	-	-
Blend funds	1,272,010	1,272,010	-	-
Mutual funds - fixed income securities				
U.S. fixed income fund	21,374,107	21,374,107	-	-
	<u>\$ 46,482,316</u>	<u>\$ 46,482,316</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 15. DESIGNATED NET ASSETS

Designated net assets consist of the following at August 31:

	<u>2016</u>	<u>2015</u>
NEA Advocacy Fund	\$ 4,634,389	\$ 98,479
National Education Employees Assistance Fund	76,421	75,354
UniServ Fund	654,847	637,733
Special Dues Ballot Fund	62,765,244	58,555,032
Special Dues Media Fund	28,592,359	40,019,085
Great Public Schools Fund	4,105,799	4,298,917
Capital Improvement Fund	26,682,479	28,493,324
	<u>\$ 127,511,538</u>	<u>\$ 132,177,924</u>

NOTE 16. RENTAL INCOME

NEAPI leases office space to various tenants. Certain leases allow for reimbursement of operating costs and/or increase in rent based on increases in real estate taxes and operating expenses. The total rental income for the years ended August 31, 2016 and 2015 were \$1,565,109 and \$2,022,676, respectively.

As of August 31, 2016, the minimum future payments from all non-cancellable leases were as follows:

Year Ending August 31,	
2017	\$ 1,108,159
2018	844,973
2019	652,983
2020	566,419
2021	231,216
Thereafter	<u>427,736</u>
	<u>\$ 3,831,486</u>

NOTE 17. SUBSEQUENT EVENTS

Management has performed a subsequent event review from September 1, 2016 to December 2, 2016; the date that the consolidated financial statements were available to be issued. On November 14, 2016, NEA360 LLC gave written notice of cancellation to the vendor with responsibility for developing the transactional component of the NEA360 platform. The vendor subsequently proposed a revised agreement, which was rejected by NEA360 LLC. NEA360 LLC has suspended work on the original project design, opting to move forward to develop a product (e.g. platform) to meet short-term needs by leveraging extant systems with a separate

NOTE 17. SUBSEQUENT EVENTS (CONTINUED)

vendor's CRM technology. NEA360 LLC is simultaneously considering strategies and technologies with the potential to meet organizational long-term needs, which may lead to re-engaging in future discussions with the original vendor of the transactional component of the platform. As of the report date that determination has not been made. This review revealed no other additional material events or transactions which would require an additional adjustment or disclosure in the accompanying consolidated financial statements.

SUPPLEMENTAL NOTES AND SCHEDULES

**NATIONAL EDUCATION ASSOCIATION
OF THE UNITED STATES AND SUBSIDIARIES**

**SUPPLEMENTAL SUMMARY SCHEDULE OF AGENCY FEE CHARGEABLE AND
NONCHARGEABLE EXPENDITURES**

FOR THE YEAR ENDED AUGUST 31, 2016

	Chargeable Expenditure	Nonchargeable Expenditure	Total Expenditures
EXPENSES BY STRATEGIC GOALS AND CORE FUNCTION AREAS			
Strong affiliates for great public schools			
1. Capacity building efforts that seek to achieve the following:			
--partner with affiliates to integrate, collect and manage data to identify threats and opportunities			
--partner with affiliates to achieve financial stability and sustainable fiscal health			
--partner with affiliates to conduct political, legislative and issue campaigns			
--jointly implement strategies to align and manage member interactions across the Association			
--develop and provide strategic research for NEA and affiliates to identify threats and opportunities			
--develop national communications strategies, resources, and tools to build capacity in state affiliates	\$ 390,675	\$ 48,148,850	\$ 48,539,525
Total strong affiliates for great public schools	390,675	48,148,850	48,539,525
Uniting the nation for great public schools			
1. Educator-Led Student Success			
--identify and advance Association-led, student-centered solutions to meet the needs of the whole child			
--empower educators to become effective instructional, policy, and Association leaders			
--develop strategies that center on achieving educational equity			
--create locally-based or state-based campaigns to improve teaching and learning conditions			
--develop internal and external partnerships to improve the quality of education for all students			
--connect the dots of the collected Association efforts of affiliates and members			
--create mechanism to enhance internal headquarters and field collaborations	14,122,411	2,630,541	16,752,952
Total uniting the nation for great public schools	14,122,411	2,630,541	16,752,952
Research, policy and practice			
1. Advocate for federal legislation and regulations that enhance student learning and workforce quality	95,335	1,487,865	1,583,200
2. Provide resources, technical assistance, and training to affiliates	1,073,587	482,559	1,556,146
3. Build, maintain, and strengthen partnerships and relationships with external organizations	1,023,690	132,530	1,156,220
4. Provide research, information and expertise to affiliates, leaders, members and staff	2,322,260	1,649,970	3,972,230
Total research, policy and practice	4,514,872	3,752,924	8,267,796
Organizing			
1. Membership and Organizing			
--develop an organizing culture that grows the NEA Membership			
--develop the necessary skills within our affiliate leaders and staff to thrive as organizers			
--assist state and local affiliates to develop their capacity and enhance their effectiveness	59,930,423	41,346,690	101,277,113
Total organizing	59,930,423	41,346,690	101,277,113

**NATIONAL EDUCATION ASSOCIATION
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**SUPPLEMENTAL SUMMARY SCHEDULE OF AGENCY FEE CHARGEABLE AND
NONCHARGEABLE EXPENDITURES**

FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Chargeable Expenditure</u>	<u>Nonchargeable Expenditure</u>	<u>Total Expenditures</u>
Advocacy and Outreach			
1. Support the Association's efforts to achieve Great Public Schools through federal legislation	\$ -	\$ 3,123,481	\$ 3,123,481
2. Provide legal services and insurance programs to support employees, members, students, state affiliates and external partnerships	28,557,046	10,713,709	39,270,755
3. Conduct strategic approach to outreach that leads to meaningful partnerships and organizing opportunities	-	8,427,991	8,427,991
4. Promote strategies to enhance educator practice and organize, mobilize, and empower educators	957,832	1,483,870	2,441,702
5. Support the Association's efforts to achieve Great Public Schools through federal legislation	-	413,772	413,772
6. Provide technical assistance and support to NEA Leaders to advance policy and practice that supports NEA's mission, vision, and core values	314,281	788,816	1,103,097
Total advocacy and outreach	<u>29,829,159</u>	<u>24,951,639</u>	<u>54,780,798</u>
Communications			
1. Design, produce, and distribute communications strategies	-	318,543	318,543
2. Design and execute strategic communication campaigns that advance Association messaging and strengthens the NEA brand	-	14,319	14,319
3. Provide resources for state-focused paid media campaigns; design and execute special projects, campaigns, and events that strengthen the NEA brand	-	5,080,529	5,080,529
4. Provide communication capabilities assessment, strategic planning, personnel training, and support for NEA and affiliate organizing campaigns	-	682,469	682,469
5. Plan and execute strategic communications initiatives for NEA projects	2,168,383	24,431,400	26,599,783
Total communications	<u>2,168,383</u>	<u>30,527,260</u>	<u>32,695,643</u>
Business Operations			
1. Provide financial and legal support to NEA and affiliate to enhance ability to conduct Association business and meet regulatory requirements	6,418,405	8,531,081	14,949,486
2. Provide human resources support to workforce planning and manage human capital operations	5,820,446	3,579,586	9,400,032
3. Provide infrastructure and organization support to lead, direct, and align NEA's programs and services	6,517,500	9,307,460	15,824,960
4. Provide organization and strategy development by conducting on-going Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis	4,240,952	1,554,408	5,795,360
5. Provide technology support to applications, systems, infrastructure and delivery of technology-related products and services for current and future needs of the Association	9,627,730	13,004,450	22,632,180
6. Provide facility management, operational support, meeting logistics and print media production	14,077,670	(80,927)	13,996,743
Total business operations	<u>46,702,703</u>	<u>35,896,058</u>	<u>82,598,761</u>
Governance			
1. Facilitate and support well-informed decision making by the Executive Officers and Committee, Board of Directors, and Representative Assembly	6,618,874	1,266,610	7,885,484
2. Facilitate and support well-informed deliberations of appointed committees and councils	262,937	378,629	641,566
3. Provide strong national and global leadership engagement and influence to strengthen NEA's alliances with US and international labor unions	394,794	1,203,096	1,597,890
4. Develop and deliver competency-based leadership development	1,194,688	1,565,484	2,760,172
Total governance	<u>8,471,293</u>	<u>4,413,819</u>	<u>12,885,112</u>
TOTAL EXPENDITURES - SUPPLEMENTAL SCHEDULES NOTE 4	<u>\$ 166,129,919</u>	<u>\$ 191,667,781</u>	<u>\$ 357,797,700</u>

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FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Chargeable Expenditure</u>	<u>Nonchargeable Expenditure</u>	<u>Total Expenditures</u>
EXPENSES BY STRATEGIC GOALS AND CORE FUNCTION AREAS			
Strong affiliates for great public schools			
1. Capacity building efforts that seek to achieve the following:			
1.1 Partner with affiliates to integrate, collect and manage data to identify threats and opportunities and to connect and activate our members.	\$ -	\$ 4,418,425	\$ 4,418,425
1.2 Partner with affiliates to achieve financial stability and sustainable fiscal health through efficient revenue collection systems, timely performance monitoring systems, and effective training for staff, management, and leaders at all levels of the Associations.	380,839	-	380,839
1.3 Partner with affiliates to conduct political, legislative, and issue campaigns that build Association capacity, target areas of greatest threat and opportunity, and seek legislative outcomes that support great public schools and sustainable organizational power.	-	40,459,097	40,459,097
1.4 Jointly implement strategies to align and manage member interactions across the Association to increase the quality of member engagement, and member activism on a continuum to increase the depth of relationships between NEA and its members.	-	285,953	285,953
1.5 Develop and provide strategic research for NEA and affiliates, increasing the capacity to identify opportunities and threats as well as to execute targeted legal, organizing, and political campaigns through an understanding of opponents, partners, and market characteristics.	9,836	2,135,439	2,145,275
1.6 Develop national communications strategies, resources, and tools to build capacity in state affiliates and partner with them in their efforts to conduct political, legislative, and issue campaigns that increase the quality of member engagement and member activism while seeking legislative outcomes that support great public schools, sustainable organizational power, and educate the public about their proactive efforts to support public education.	-	849,936	849,936
Total capacity building efforts	<u>390,675</u>	<u>48,148,850</u>	<u>48,539,525</u>
Uniting the nation for great public schools			
1. Educator-Led Student Success			
1.1 Identify and advance Association-led, student-centered solutions that work (GPS Indicators) to meet the needs of the whole child. Develop implementation strategies in at least 10 affiliates annually.	1,367,899	256,124	1,624,023
1.2 Empower educators to become effective instructional, policy, and Association leaders. Engage and develop at least 1,000 new leaders each year.	4,577,513	818,460	5,395,973
1.3 Develop strategies that center on achieving educational equity with a special focus on schools of greatest need. Implement these strategies in at least 20 new schools annually.	662,034	105,572	767,606
1.4 Create locally-based or state-based "campaigns" in at least 5 state affiliates and 20 local affiliates to improve teaching and learning conditions.	6,558,905	61,474	6,620,379
1.5 Develop internal and external partnerships to improve the quality of education for all students. Develop and/or maintain partnerships with at least five external education-related partners.	804,438	633,754	1,438,192
1.6 Connect the dots of the collected Association efforts of affiliates and members who are advancing an Association-led, student-centered agenda.	121,110	726,938	848,048
1.7 Create mechanisms to enhance internal headquarters and field collaboration around an Association-led, student-centered agenda.	30,512	28,219	58,731
Total educator-led student success	<u>14,122,411</u>	<u>2,630,541</u>	<u>16,752,952</u>
Research, policy, and practice			
1. Advocate for federal legislation and regulations that enhance student learning and workforce quality			
1.1 Policy Advancement - Advocate for federal legislation and regulations that enhance student learning and workforce quality through good policies and practices.	95,335	1,487,865	1,583,200
Total advocate for federal legislation and regulations that enhance student learning and workforce quality	<u>95,335</u>	<u>1,487,865</u>	<u>1,583,200</u>
2. Provide resources, technical assistance and training to affiliates			
2.1 Affiliate Support - Provide resources, technical assistance, and training to affiliates to support their efforts to achieve improvements in teaching and learning.	1,073,587	482,559	1,556,146
Total provide resources, technical assistance and training to affiliates	<u>1,073,587</u>	<u>482,559</u>	<u>1,556,146</u>

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	<u>Chargeable Expenditure</u>	<u>Nonchargeable Expenditure</u>	<u>Total Expenditures</u>
3. Build, maintain, and strengthen partnerships and relationships with external organizations			
3.1 Partnerships and Relationships - Build, maintain, and strengthen partnerships and relationships with external organizations to advance NEA's criteria for Great Public Schools and workforce quality agenda.	\$ 1,023,690	\$ 132,530	\$ 1,156,220
Total build, maintain, and strengthen partnerships and relationships with external organizations	<u>1,023,690</u>	<u>132,530</u>	<u>1,156,220</u>
4. Provide research, information and expertise to affiliates, leaders, members and staff			
4.1 Research - Provide research, information, and expertise to affiliates, leaders, members, and staff to support their efforts to improve teaching and learning.	2,322,260	1,649,970	3,972,230
Total provide research, information and expertise to affiliates, leaders, members and staff	<u>2,322,260</u>	<u>1,649,970</u>	<u>3,972,230</u>
Organizing			
1. Membership and organizing			
1.1 Develop an organizing culture that grows the NEA membership through, data-driven, research-based campaigns in state and local affiliates while testing and assessing strategies for membership growth, member retention, member engagement, and relevance to members and ensuring successful strategies are shared broadly.	-	20,819,374	20,819,374
1.2 Develop the necessary skills within our affiliate leaders and staff to thrive as organizers in a changing internal and external environment.	1,348,127	5,509,021	6,857,148
1.3 Assist state and local affiliates to develop their capacity and enhance their effectiveness.	58,582,296	15,018,295	73,600,591
Total membership and organizing	<u>59,930,423</u>	<u>41,346,690</u>	<u>101,277,113</u>
Advocacy and Outreach			
1. Support the Association's efforts to achieve Great Public Schools through federal legislation			
1.1 Supports the Association's efforts to achieve Great Public Schools for every student through federal legislation to ensure equity for students who are most in need and support policies to strengthen public schools, colleges, universities, and communities for the children and families who live and go to school there.	-	3,123,481	3,123,481
Total support the Association's efforts to achieve great public schools through federal legislation	<u>-</u>	<u>3,123,481</u>	<u>3,123,481</u>
2. Provide legal services and insurance programs to support employees, members, students, state affiliates and external partnerships			
2.1 Enhance collective bargaining and advocacy, with a focus on a student-centered agenda and employee rights, by providing support and technical assistance to affiliates and NEA Departments in the areas of collective bargaining, adequate and affordable health care, retirement security, and equitable and transparent compensation practices that attract and retain a high quality workforce.	1,484,688	490,323	1,975,011
2.2 Administer the Unified Legal Services and the Expanded Support to State Affiliate Programs to strengthen affiliate capacity to defend, advocate, and advance the rights of members.	13,411,995	7,836,492	21,248,487
2.3 Administer, enhance, and promote NEA insurance programs that support member recruitment, defend members from false criminal accusations; protect members, leaders, and staff from professional liability lawsuits; minimize the impact of fiduciary losses; and indemnify affiliates against errors and omissions. Negotiate policies that maintain (and increase, where possible) liability and fiduciary protections.	12,323,817	-	12,323,817
2.4 Promote and support external partnerships that advance NEA's policies on collective bargaining, compensation, health care, and retirement security in order to achieve great public schools for every student.	-	437,505	437,505
2.5 Conduct the Human and Civil Rights pre-RA and NEA Board events to address current trends with a direct focus on mobilizing our members and impacting educational equity.	263,990	993,328	1,257,318
2.6 Advance NEA's student-centered social and economic justice agenda in public schools through leadership development, policy development and analysis, the development of advocacy tools, and collaboration with external partners and state and local affiliates.	1,072,556	347,825	1,420,381
2.7 Support affiliates in identifying and engaging partners within the minority/ethnic community that are immersed in work involving parental engagement and community organizing to move a student-centered agenda.	-	608,236	608,236
Total provide legal services and insurance programs to support employees, members, students, state affiliates and external partnerships	<u>28,557,046</u>	<u>10,713,709</u>	<u>39,270,755</u>

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FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Chargeable Expenditure</u>	<u>Nonchargeable Expenditure</u>	<u>Total Expenditures</u>
3. Conduct strategic approach to outreach that leads to meaningful partnerships and organizing opportunities			
3.1 Conduct strategic approach to outreach that leads to meaningful partnerships and organizing opportunities which focus on parents, ethnic/minority communities, and labor to advance our strategic goals, mission, vision, and core values.	\$ -	\$ 8,427,991	\$ 8,427,991
Total conduct strategic approach to outreach that leads to meaningful partnerships and organizing opportunities	<u>-</u>	<u>8,427,991</u>	<u>8,427,991</u>
4. Promote strategies to enhance educator practice and organize, mobilize, and empower educators			
4.1 Through Association-led training and leadership development, promote strategies to enhance educator practice and organize, mobilize, and empower educators to become effective instructional, policy, and Association leaders who improve the outcomes for students in marginalized and underserved populations.	957,832	1,483,870	2,441,702
Total promote strategies to enhance educator practice and organize, mobilize, and empower educators	<u>957,832</u>	<u>1,483,870</u>	<u>2,441,702</u>
5. Support the Association's efforts to achieve Great Public Schools through federal legislation			
5.1 Support strategies to engage, mobilize, and organize members to advance NEA's student-centered social-economic justice agenda.	-	8,024	8,024
5.2 Support the Association's efforts to achieve Great Public Schools for every student through federal legislation to ensure equity for students who are most in need and support policies to strengthen public schools, colleges, universities, and communities for the children and families who live and go to school there.	-	405,748	405,748
Total support the Association's efforts to achieve Great Public Schools through federal legislation	<u>-</u>	<u>413,772</u>	<u>413,772</u>
6. Provide technical assistance and support to NEA Leaders to advance policy and practice that supports NEA's mission, vision, and core value			
6.1 Provide technical assistance and support to NEA leaders to advance policy and practice that supports NEA's mission, vision, and core value.	314,281	788,816	1,103,097
Total provide technical assistance and support to NEA Leaders to advance policy and practice that supports NEA's mission, vision, and core value	<u>314,281</u>	<u>788,816</u>	<u>1,103,097</u>
Communications			
1. Design, produce, and distribute communications strategies			
1.1 Design, produce, and distribute communications strategies that engage members and the public to support political and legislative goals that benefit Association members and their students; as well as NEA advocacy campaigns on human rights, social and economic justices.	-	318,543	318,543
Total design, produce, and distribute communications strategies	<u>-</u>	<u>318,543</u>	<u>318,543</u>
2. Design and execute strategic communication campaigns that advance Association messaging and strengthens the NEA brand			
2.1 Design and execute strategic communication campaigns that advance Association messaging and strengthens the NEA brand via components developed through the use of up-to-date research, planning, and evaluation data. Strategically and efficiently coordinate deployment of multiple technology tools across various platforms in Raise Your Hand (RYH) campaigns.	-	14,319	14,319
Total design and execute strategic communication campaigns that advance Association messaging and strengthens the NEA brand	<u>-</u>	<u>14,319</u>	<u>14,319</u>
3. Provide resources for state-focused paid media campaigns; design and execute special projects, campaigns, and events that strengthen the NEA brand			
3.1 Design and execute special projects, campaigns, and events that strengthen the NEA brand and reputation, and engage members in positive, proactive communication.	-	1,062,063	1,062,063
3.2 National communication strategy driven by state communication staff and NEA Communications to include coordination, planning, and orientation with PR Council of the states and the State Education Editors (state communicators).	-	183,629	183,629
3.3 Build communication capacity of local Association leaders and staff through training, development, and leadership opportunities.	-	179,870	179,870
3.4 Provide resources for state-focused paid media campaigns to drive state affiliate and NEA key messages and build the image and reputation of the Association.	-	3,654,967	3,654,967
Total provide resources for state-focused paid media campaigns; design and execute special projects, campaigns, and events that strengthen the NEA brand	<u>-</u>	<u>5,080,529</u>	<u>5,080,529</u>

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	<u>Chargeable Expenditure</u>	<u>Nonchargeable Expenditure</u>	<u>Total Expenditures</u>
4. Provide communication capabilities assessment, strategic planning, personnel training, and support for NEA and affiliate organizing campaigns			
4.1 Provide communication capabilities assessment, strategic planning, personnel training, product production, campaign execution support, and campaign performance analysis support for NEA and affiliate organizing campaigns.	\$ -	\$ 682,469	\$ 682,469
Total provide communication capabilities assessment, strategic planning, personnel training, and support for NEA and affiliate organizing campaigns	<u>-</u>	<u>682,469</u>	<u>682,469</u>
5. Plan and execute strategic communications initiatives for NEA projects			
5.1 Communicate the Association's key messages and raise member voices by building and maintaining strong relationships with earned media including print, online, and broadcast news media, education writers and editors, bloggers, and opinion writers. Also provide media training to Association leaders and spokespersons.	-	634,027	634,027
5.2 Conduct quantitative and qualitative research to shape and inform NEA messaging and communication plans.	-	395,451	395,451
5.3 Lead and develop message training curriculum for the Association and state affiliates, including development of message guidance for NEA led programs, initiatives, and policies.	-	125,109	125,109
5.4 Plan and execute strategic communications initiatives for NEA projects, initiatives, and programs by managing multiple tactics including paid media strategic partnerships, sponsorships, and special events across the Center.	-	14,808,331	14,808,331
5.5 Provide a full range of conceptual and strategic planning from traditional and interactive design to film, pre and post production as well as using popular culture and the arts as a tool to engage NEA HQ, affiliates, and partners to fund an infrastructure necessary to effectively support mission-critical communications.	979,691	1,483,543	2,463,234
5.6 Plan, develop, produce, and deploy and sustain digital engagement strategies and products in support of NEA strategic priorities.	329,125	1,345,365	1,674,490
5.7 Research, write, edit, design, and provide editorial content in print, digital, and mobile platforms to engage members and communicate Association key messages.	324,336	5,636,866	5,961,202
5.8 Develop and execute strategic communications programs to engage delegates, members and external audiences during the Representative Assembly and provide communications support for internal clients.	535,231	2,708	537,939
Total plan and execute strategic communications initiatives for NEA projects	<u>2,168,383</u>	<u>24,431,400</u>	<u>26,599,783</u>
Business operations			
1. Provide financial and legal support to NEA and affiliate to enhance ability to conduct Association business and meet regulatory requirements			
1.1 Systems and Data: Provide ongoing support for NEA and affiliates through the deployment of Association business systems and software applications.	449,274	606,847	1,056,121
1.2 Promote NEA and affiliate fiscal health through training and advisory services for staff and governance that enhance their ability to conduct Association business and meet regulatory requirements.	3,984,880	5,616,020	9,600,900
1.3 Manage and project the Association's finances by monitoring revenues and expenditures and analyzing factors that affect revenue streams and cause expenditure variances.	663,954	765,191	1,429,145
1.4 Reduce loss and increase efficiency by executing a comprehensive risk management program that includes audits, compliance monitoring, and information security.	224,888	-	224,888
1.5 Provide legal advice, counseling, agency fee support and support for the NEA Fund for Children and Public Education and Federal Election Commission matters.	1,095,409	1,543,023	2,638,432
Total provide financial and legal support to NEA and affiliate to enhance ability to conduct Association business and meet regulatory requirements	<u>6,418,405</u>	<u>8,531,081</u>	<u>14,949,486</u>
2. Provide human resources support to workforce planning and manage human capital operations			
2.1 Workforce planning including position control, recruitment, internships, and Human Resource partner consulting.	2,031,504	3,579,586	5,611,090
2.2 Manage human capital operations including labor relations, payroll, benefits, performance management, and NEA staff's collective bargaining agreements.	3,569,641	-	3,569,641
2.3 Develop NEA's workplace culture to foster a workforce inspired to achieve NEA's vision and strategy.	219,301	-	219,301
Total provide human resources support to workforce planning and manage human capital operations	<u>5,820,446</u>	<u>3,579,586</u>	<u>9,400,032</u>

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	<u>Chargeable Expenditure</u>	<u>Nonchargeable Expenditure</u>	<u>Total Expenditures</u>
3. Provide infrastructure and organization support to lead, direct, and align NEA's programs and services			
3.1 Lead, direct, and align NEA's programs and services by engaging staff and managing resources to effectively advance the Association's strategic goals and core functions.	\$ 6,517,500	\$ 9,307,460	\$ 15,824,960
Total provide infrastructure and organization support to lead, direct, and align NEA's programs and services	<u>6,517,500</u>	<u>9,307,460</u>	<u>15,824,960</u>
4. Provide organization and strategy development by conducting on-going Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis			
4.1 Facilitate the development of NEA strategy and align both strategy and operations.	3,090,159	-	3,090,159
4.2 Support the NEA and departments to ensure efficient and effective Administration of resources.	1,150,793	1,554,408	2,705,201
Total provide organization and strategy development by conducting on-going Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis	<u>4,240,952</u>	<u>1,554,408</u>	<u>5,795,360</u>
5. Provide technology support to applications, systems, infrastructure and delivery of technology-related products and services for current and future needs of the Association			
5.1 Build a solid foundation of IT infrastructure that provides reliable, agile, and flexible IT service choices while optimizing NEA's IT investments. Manage, adopt, and promote the use of using shared, common web-based services, data, and technology architecture and standards to NEA enterprise system/applications, affiliate services, NEA Member Benefits, and external partners.	2,862,778	3,866,836	6,729,614
5.2 Effectively direct resources for overall design, development, modernization, and maintenance of a robust central computing center. Develop an infrastructure flexible enough in its architecture to respond to innovation and the changing needs of the NEA.	1,980,244	2,674,772	4,655,016
5.3 Provide standardization and improve IT Service Level Management for all consolidated and enterprise-based services, to achieve improved service outcomes, meet high-quality service levels, and demonstrate accountability. Adoption of common service management processes, tools and metrics in order to coordinate support, management and reporting.	1,509,657	2,039,137	3,548,794
5.4 Secure NEA's IT infrastructure, safeguard the integrity of information resources and privacy of its community. Provide the means to achieve the level of information protection driven by the business needs supported by policies, standards, procedures, and the technical architecture. Define and implement a consistent approach that meets legal and regulatory requirements relating to confidential and/or personal information (PI).	473,206	639,174	1,112,380
5.5 Provide sound information systems featuring a rich set of applications and tools that address the increasing need for more effective and efficient processes and provide for advanced analytics. As applications are either deployed for the first time or replaced they should employ standards-based technologies that will integrate with emerging technologies for continued accessibility.	2,801,845	3,784,531	6,586,376
Total provide technology support to applications, systems, infrastructure and delivery of technology-related products and services for current and future needs of the Association	<u>9,627,730</u>	<u>13,004,450</u>	<u>22,632,180</u>
6. Provide facility management, operational support, meeting logistics and print media production			
6.1 Implement building projects that improve NEA's infrastructure, and continue to make NEA a green environment.	255,216	-	255,216
6.2 Manage NEA facilities, business continuity and crisis management, meeting logistics, and print media production.	13,822,454	(80,927)	13,741,527
Total provide facility management, operational support, meeting logistics and print media production	<u>14,077,670</u>	<u>(80,927)</u>	<u>13,996,743</u>
Governance			
1. Facilitate and support well-informed decision making by the Executive Officers and Committees, Board of Directors, and Representative Assembly			
1.1 Develop 21st century governance: Proactively assess NEA's governance procedures and policies to ensure that the organization has the procedural and structural ability to effectively respond to threats, advance its goals, and operate with maximum efficiency.	126,906	171,416	298,322
1.2 Facilitate and support well-informed decision-making by the Executive Officers and Committees to advance the organization's present and anticipated needs.	2,367,016	1,089,680	3,456,696
1.3 Facilitate and support well-informed decision-making by the Board of Directors that meets the contemporary and future needs of the organization.	2,704,871	-	2,704,871
1.4 Facilitate and support well-informed decision-making by the Representative Assembly that meets the contemporary and future needs of the organization.	1,403,608	-	1,403,608

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	Chargeable Expenditure	Nonchargeable Expenditure	Total Expenditures
1.5 Innovate operations and manage resources to promote alignment, efficiency and fiscal stewardship; consistently implement governance business policies and practices; and provide a high level of customer service to support an effective governance corps.	\$ 16,473	\$ 5,514	\$ 21,987
Total facilitate and support well-informed decision making by the Executive Officers and Committees, Board of Directors, and Representative Assembly	6,618,874	1,266,610	7,885,484
2. Facilitate and support well-informed deliberations of appointed committees and councils			
2.1 Facilitate and support well-informed deliberations of appointed committees and councils.	262,937	378,629	641,566
Total facilitate and support well-informed deliberations of appointed committees and councils	262,937	378,629	641,566
3. Provide strong national and global leadership engagement and influence to strengthen NEA's alliances with US and international labor unions			
3.1 Provide strong Association leadership voice and engagement, giving highest priority to those events, topical issues, and relationships that will best advance NEA's goals.	394,794	533,260	928,054
3.2 Facilitate and support leadership initiatives that strengthen NEA's alliances with U.S. and international labor unions.	-	669,836	669,836
Total provide strong national and global leadership engagement and influence to strengthen NEA's alliances with US and international labor unions	394,794	1,203,096	1,597,890
4. Develop and deliver competency-based leadership development			
4.1 Leadership Management System and Leadership Competencies - Develop and identify content and experiences that will effectively impart NEA leadership competencies and prepare leaders with the knowledge, skills, and abilities necessary to lead relevant and thriving Associations. Partner with committed affiliates to align competency-based leadership development programming, and leverage collective resources.	204,863	276,714	481,577
4.2 National Leadership Summits: Develop and identify content and experiences that will effectively impart NEA leadership competencies and prepare leaders with the knowledge, skills, and abilities necessary to lead relevant and thriving Associations.	865,223	1,168,681	2,033,904
4.3 Deliver and coordinate competency-based learning opportunities for leaders to ensure that they have the knowledge, skills, and abilities to be effective in the roles in which they serve. Develop and identify content and experiences that will effectively impart NEA leadership competencies and prepare leaders with the knowledge, skills, and abilities necessary to lead relevant and thriving Association.	124,602	120,089	244,691
Total develop and deliver competency-based leadership development	1,194,688	1,565,484	2,760,172
TOTAL EXPENDITURES	\$ 166,129,919	\$ 191,667,781	\$ 357,797,700

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

**NOTES TO SUPPLEMENTAL SUMMARY SCHEDULES OF AGENCY FEE CHARGEABLE AND
NONCHARGEABLE EXPENDITURES**

FOR THE YEAR ENDED AUGUST 31, 2016

NOTE 1. AGENCY FEE CHARGEABLE AND NONCHARGEABLE EXPENDITURES

The National Education Association (NEA) collects agency or service fees from non-members of NEA. These non-members are referred to as "agency fee payers." NEA is required by law to have procedures in effect to determine the amount of its expenditures that can be charged to objecting agency fee payers. The procedures that NEA applies have received the approval of arbitrators, public sector labor boards, and courts. The legal interpretations and standards that NEA currently utilizes to make its determinations of chargeability have been developed by the NEA's Office of General Counsel based on relevant case law.

NEA has analyzed its expenditures and determined which of those expenditures were "chargeable" to objecting agency fee payers and which of them were "nonchargeable" to those agency fee payers. Based on relevant federal and state judicial and administrative decisions, it was determined that chargeable activities and expenditures were related to the following matters:

1. collective bargaining;
2. preparations for strikes, and activities undertaken in connection with lawful strikes;
3. contract administration;
4. grievance processing, including arbitration;
5. specific terms and conditions of employment that may be negotiable, such as wages, hours, benefits, working conditions, employment discrimination, promotions, discipline, discharge, retirement benefits, performance evaluation, overtime compensation, environmental issues in the workplace, etc.;
6. communications with bargaining unit members regarding services they receive;

NOTE 1. AGENCY FEE CHARGEABLE AND NONCHARGEABLE EXPENDITURES (CONTINUED)

7. professional development (including teacher education, continuing education, and certification), curriculum development and implementation, teaching methods and other instructional skills, information and materials intended for instructional purposes, site-based decisionmaking, and education generally, except to the extent that such activities and expenditures involve lobbying and other political activities, membership organizing or recruitment activities, and/or external public relations;
8. uses of technology in education;
9. publications, portions of publications, or any other communications which involve chargeable issues, such as those related to activities or expenditures listed herein as chargeable, if the publications are provided to agency fee payers;
10. unemployment and job opportunities in education;
11. insurance programs and other benefits for which both members and agency fee payers are eligible;
12. NEA award programs;
13. Association leadership and management skills training and techniques, strategic planning;
14. NEA Representative Assembly, Executive Committee and Board of Directors; and
15. employee relations and NEA staff grievances.

It was further determined that nonchargeable activities and expenditures were related to the following matters:

1. lobbying and political efforts before state legislatures, state administrative agencies, Congress, federal agencies or other executive branch officials, and ballot initiatives, as well as any grassroots lobbying activities related to the Great Public Schools Program, unless any of the preceding are specifically related to ratification or implementation of a collective bargaining agreement;
2. external public relations (unless specifically related to collective bargaining or contract administration), American Education Week, National Teacher Day, and any public relations related to the Great Public Schools Program;

NOTE 1. AGENCY FEE CHARGEABLE AND NONCHARGEABLE EXPENDITURES (CONTINUED)

3. litigation, unless specifically related to collective bargaining, contract administration or organizational maintenance;
4. voter registration and get-out-the-vote activities for members, and campaign techniques (i.e., training programs designed to prepare leaders, staff and/or members to work with members in support of candidates for any public office);
5. supporting or contributing to charitable, religious or ideological causes (e.g., direct or in-kind contributions to such causes, expenditures designed primarily to assist such causes, and payments to fundraisers for groups which promote such causes);
6. supporting political organizations or candidates for public office (e.g., activities in connection with the endorsement of political candidates, activities in connection with the NEA Fund for Children and Public Education, including its administration, consulting with/or providing training for state/local political action committees);
7. publications, portions of publications or any other communications which involve nonchargeable issues, such as those related to activities or expenditures listed herein as nonchargeable;
8. organizing or recruiting new members, establishing new or expanded bargaining units, organizing and recruitment activities related to the Great Public Schools Program, defending against challenges to exclusive bargaining representative status;
9. various ideological issues unrelated to collective bargaining or organizational maintenance, such as reproductive freedom (including abortion and birth control), anti-flag burning laws, balanced budget amendment, prayer in school, school vouchers, race relations in Africa and Asia, energy conservation, human rights, nuclear arms freeze, child support enforcement, judicial or executive appointments, student scholarships, etc.;
10. illegal job actions and administration of the National Education Employees Assistance Fund;
11. monitoring and opposing activities of groups and individuals whose purpose is to undermine public education;
12. members-only benefits, (e.g., DUES-TAB Insurance);
13. NEA-Retired and NEA Student Program activities; and
14. international relations, the Education International.

NOTE 1. AGENCY FEE CHARGEABLE AND NONCHARGEABLE EXPENDITURES (CONTINUED)

Expenditures in the following categories were analyzed by examining staff's daily activity reports, vouchers and financial reports, written or audiovisual publications, service or funding agreements, meeting or conference agendas/materials, research surveys, etc., in the context of the criteria listed above: Portions of Strong affiliates for great public schools; Uniting the nation for great public schools; Research, policy and practice; Organizing; portions of categories 2, and 4-6 of Advocacy and Outreach; and portions of categories 5 of Communications. Based upon these analyses, NEA determined which of its expenditures were chargeable and which were nonchargeable.

NOTE 2. STATE AFFILIATE DETERMINATION OF CHARGEABLE EXPENDITURES

The total chargeable and nonchargeable expenditures included in the Affiliate Financial Assistance Program, Small States Foundation Program, Unified State Executive Director Program, Local Presidents Release Time Program, and UniServ Grants Program (all in category 1 of Organizing), and in the Unified Legal Services Program (category 2 of Advocacy and Outreach), have been allocated based on a conservative estimate of the average chargeable percentages reported by the state affiliates for the year ended August 31, 2015. That is because, at the time of this audit, state affiliates have not yet completed their own audits for the year ended August 31, 2016. State affiliates will subsequently report their respective chargeable and nonchargeable percentages for the year ended August 31, 2016, when complete, audited information is available for them to make such determinations. Therefore, the chargeable and nonchargeable expenditures of those programs listed in this document are estimates for purposes of these schedules and will subsequently be adjusted to actual upon receipt of the chargeable and nonchargeable percentages from state affiliates. The expenditures in category 2 of Advocacy and Outreach include amounts for Educators Employment Liability (EEL) insurance and the Attorney Referral Program (ARP), which are not provided to agency fee payers in some states. For purposes of this presentation, the EEL-related and ARP-related expenditures have been treated as chargeable; however, in the states where either the EEL insurance or ARP is not provided to agency fee payers, the expenditures will be considered nonchargeable.

NOTE 3. OVERHEAD FUNCTIONS

The expenditures in the following Strategic Goals and Core Function Areas are considered programmatic in nature: Strong affiliates for great public schools; Uniting the nation for great public schools; Research, policy and practice; Organizing; Advocacy and Outreach; and Communications.

The expenditures in the following Strategic Goals and Core Function Areas are considered support or overhead: Portions of Strong affiliates for great public schools; portions of category 5 of Communications; Business Operations; and Governance. In view of this

NOTE 3. OVERHEAD FUNCTIONS (CONTINUED)

relationship, management believes it is fair and reasonable to allocate the expenditures in the support or overhead areas by the percentage determined as chargeable for the programmatic activities, but only after specific clearly chargeable or clearly nonchargeable expenditures have been separated and treated as fully chargeable or nonchargeable, respectively.

The support or overhead expenditures, which are considered clearly chargeable, are as follows:

Strategic Goal 1 – Strong Affiliates for great public schools

1. Provide financial training, technical assistance and managerial support to NEA and affiliates

Tactic 1.2	Affiliate support and association fiscal health	\$ 380,839
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Core Function Area 5 – Business Operations

1. Provide business systems, legal, and financial expertise to NEA and affiliates

Tactic 1.3	Agency fee activities	\$ 97,452
Tactic 1.4	Internal audit/risk management	224,888
Tactic 1.5	Agency fee support – legal	41,552

2. Manage employee benefits and services, labor relations, and workforce costs

Tactic 2.1	Workforce planning, position control	787,688
Tactic 2.2	Human capital, labor relations, payroll	3,569,641
Tactic 2.3	Morale management and skills development	219,301

3. Provide departmental infrastructure and business intelligence systems that align with NEA’s strategic goals and core functions

Tactic 3.1	Infrastructure support	973,401
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4. Sustain NEA as a high-performance learning organization and archive its records for current and future generations

Tactic 4.1	Operational review/SWOT analyses	3,090,159
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6. Provide facility management, operational support, and meeting logistics

Tactic 6.1	Building projects	255,216
Tactic 6.2	Facilities management, operational support	13,822,454
		\$23,087,752

NOTE 3. OVERHEAD FUNCTIONS (CONTINUED)

Core Function Area 6 – Governance

1. Provide support to governance and the NEA policy making process		
Tactic 1.2	Executive committee	\$ 1,560,281
Tactic 1.3	Board of directors	2,704,871
Tactic 1.4	RA strategic and advisory committees	1,403,608
Tactic 1.5	Minutes and proceedings	12,391
4. Competency-based leadership development		
Tactic 4.3	3-1(G) workshop	35,696
		<u>\$ 5,716,847</u>

The support or overhead expenditures that are considered clearly nonchargeable are as follows:

Strategic Goal 1 – Strong affiliates for great public schools

1. Provide financial training, technical assistance and managerial support to NEA and affiliates		
Tactic 1.1	Enterprise data system	<u>\$ 1,683,858</u>

Core Function Area 4 – Communications

5. Communication Operations		
Tactic 5.1	Metrics analysis	\$ 1,003
Tactic 5.3	Message and intel development	125,109
Tactic 5.5	Branding standards	160,247
Tactic 5.6	Communications digital audit	19,573
		<u>\$ 305,932</u>

Core Function Area 5 – Business operations

1. Provide business systems, legal, and financial expertise to NEA and affiliates		
Tactic 1.2	PAC compliance systems	\$ 233,528
Tactic 1.5	FCPE policy support services	119,546
2. Manage employee benefits and services, labor relations, and workforce costs		
Tactic 2.1	Workforce planning, position control	1,899,528

NOTE 3. OVERHEAD FUNCTIONS (CONTINUED)

3. Provide departmental infrastructure and business intelligence systems that align with NEA's strategic goals and core functions		
Tactic 3.1	Infrastructure support	\$ 1,818,885
6. Provide facility management, operational support, and meeting logistics		
Tactic 6.2	NEA HQ leased spaces	(80,927)
		<u>\$ 3,990,560</u>

Core Function Area 6 – Governance

2. Facilitate and support well-informed deliberations and appointed committees and councils		
Tactic 2.1	Committees and Councils	\$ 23,474
3. Provide national and global leadership engagement		
Tactic 3.2	Alliance with national and international labor unions	669,836
		<u>\$ 693,310</u>

NOTE 4. RECONCILIATION OF TOTAL EXPENSE TO AUDITED FINANCIAL STATEMENT EXPENSES

The following is a reconciliation of the total expenses in this schedule to the total expenses as reported in NEA's audited financial statements:

Total expenses (included on page 5)	\$ 415,660,539
Expenses from special purpose fund activities	(5,328,259)
Expenses not included in this report, but included in expenses of the audited financial statements:	
Member Benefits Programs	(50,837,909)
NEA Properties	<u>(1,696,671)</u>
	<u>\$ 357,797,700</u>

**NOTE 4. RECONCILIATION OF TOTAL EXPENSE TO AUDITED FINANCIAL STATEMENT EXPENSES
(CONTINUED)**

For purposes of this schedule, the chargeable and nonchargeable expenditures of the remaining support or overhead areas are based upon a chargeable percentage figure that has been derived from the chargeable programmatic activity expenditures as they appear elsewhere in the schedule. Because, as explained in Note 2, the chargeable percentages for some programmatic activities will vary from state to state in accordance with certain specific expenditures of those state affiliates, the chargeable and nonchargeable expenditures of those remaining support or overhead areas are not final. Once NEA receives the appropriate information from the state affiliates, it will calculate a final chargeable programmatic activity percentage for each state affiliate and then use that percentage to allocate the expenditures in the remaining support or overhead areas. Consequently, new NEA total chargeable and nonchargeable expenditures will result for each state affiliate.

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