NATIONAL ASSOCIATION OF CREDIT MANAGEMENT, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2017 and 2016

NATIONAL ASSOCIATION OF CREDIT MANAGEMENT, INC. AND SUBSIDIARIES

For the Years Ended December 31, 2017 and 2016

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E. COHEN
AND COMPANY, CPAs
Building Profitable Ideas

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
National Association of Credit Management Inc. and Subsidiaries
Columbia, Maryland

We have audited the accompanying consolidated financial statements of the National Association of Credit Management, Inc. and Subsidiaries (together, the Association), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Association of Credit Management, Inc. and Subsidiaries as of December 31, 2017 and 2016 and the results of their consolidated operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of an Error

As discussed in Note 3 to the consolidated financial statements, the Association's beginning net assets for the year ended December 31, 2016 have been restated to reflect the correction of an error. Our opinion is not modified with respect to that matter.

E. Cohen and Company, CPAs

March 22, 2018

NATIONAL ASSOCIATION OF CREDIT MANAGEMENT, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	As Restated 2016
Current assets		
Cash and cash equivalents	$ 820,777	$ 601,318
Accounts receivable, net	411,678	409,820
Publications inventory, net	7,954	15,542
Prepaid expenses and other current assets	193,839	150,099
Note receivable - affiliate, net	7,797	30,515
Total current assets	1,442,045	1,207,294
Certificates of deposit	-	124,801
Investments	2,193,815	1,945,633
Property and equipment, net	1,952,708	1,988,296
Other assets		
Restricted cash equivalents	102,290	101,984
Note receivable - affiliate, noncurrent portion	-	7,797
Total other assets	102,290	109,781
Total assets	$ 5,690,858	$ 5,375,805

LIABILITIES AND UNRESTRICTED NET ASSETS

	2017	As Restated 2016
Current liabilities		
Mortgage payable, current portion	$ 62,750	$ 60,266
Accounts payable and accrued expenses	356,130	218,166
Payroll liabilities	125,883	137,970
Deferred revenue	581,298	616,043
Total current liabilities	1,126,061	1,032,445
Mortgage payable, noncurrent portion	1,390,005	1,449,755
Total liabilities	2,516,066	2,482,200
Unrestricted net assets	3,174,792	2,893,605
Total liabilities and unrestricted net assets	$ 5,690,858	$ 5,375,805

NATIONAL ASSOCIATION OF CREDIT MANAGEMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	As Restated 2016
Unrestricted revenue and support		
Membership dues	$ 1,051,514	$ 1,115,849
Conferences and meetings	1,360,669	1,484,620
Information resources	374,642	506,178
Courses and programs	772,935	669,289
Designations	142,779	154,652
Rental income	108,899	115,296
Services and management fees	2,405,884	2,320,346
Royalties	14,132	17,791
Contributions	40,749	42,734
Other	18,782	32,571
Total unrestricted revenue and support	6,290,985	6,459,326
Expenses		
Affiliate commissions	18,220	24,699
Bank and investment fees	21,715	20,567
Business Credit Magazine	99,947	105,050
Conferences and meetings	662,384	626,056
Cost of sales	55,725	58,024
Credit reports	82,768	135,253
Depreciation and amortization	109,374	128,091
Dues and subscriptions	4,589	4,721
Equipment rental and support	144,091	154,437
Insurance	60,634	69,608
Meetings and travel	44,926	48,309
Merchant service fees	64,467	68,364
Occupancy	92,619	111,475
Office supplies, printing and maintenance	75,457	61,460
Online courses	78,569	99,820
Other	27,663	34,057
Outside services	169,963	160,731
Postage and shipping	536,635	571,281
Professional services	579,581	568,033
Promotions and advertising	34,194	37,888
Property taxes	39,718	51,360
Salaries and fringe benefits	3,069,564	3,195,708
Scholarships	23,211	32,008
Telephone	20,002	22,856
Total expenses before other income (expense)	6,116,016	6,389,856
Other income (expenses)		
Interest and dividend income	82,204	68,679
Unrealized gain on investments	96,791	16,301
Realized gain (loss) on sale of investments	27,386	(10,744)
Interest expense	(63,698)	(66,266)
Loss on disposal of property and equipment	(33,052)	-
Total other income (expenses)	109,631	7,970
Change in unrestricted net assets before provision for income taxes	284,600	77,440
Provision for income taxes	3,413	528
Change in unrestricted net assets	$ 281,187	$ 76,912

See independent auditor's report and notes to the consolidated financial statements.

NATIONAL ASSOCIATION OF CREDIT MANAGEMENT, INC.
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CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	As Restated 2016
Unrestricted net assets, beginning of year, as previously reported	$ 2,893,605	$ 2,630,081
Effect of prior period adjustment on unrestricted net assets	-	186,612
Unrestricted net assets, beginning of year, as restated	2,893,605	2,816,693
Change in unrestricted net assets	281,187	76,912
Unrestricted net assets, end of year	$ 3,174,792	$ 2,893,605
Temporarily restricted net assets, beginning of year, as previously reported	$ -	$ 186,612
Effect of prior period adjustment on temporarily restricted net assets	-	(186,612)
Temporarily restricted net assets, beginning of year, as restated	-	-
Change in temporarily restricted net assets	-	-
Temporarily restricted net assets, end of year	$ -	$ -

NATIONAL ASSOCIATION OF CREDIT MANAGEMENT , INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 281,187	$ 76,912
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	109,374	128,091
Amortization expense reported as interest	3,000	3,000
Loss on disposal of property and equipment	33,052	-
Net realized and unrealized (gain) loss on investments	(124,177)	(5,557)
(Increase) decrease in:		
Accounts receivable	(1,858)	(21,786)
Publications inventory	7,588	1,778
Prepaid expenses and other current assets	(43,740)	65,054
Increase (decrease) in:		
Accounts payable and accrued expenses	137,964	16,320
Payroll liabilities	(12,087)	12,499
Deferred revenue	(34,745)	(59,728)
Net cash provided by operating activities	355,558	216,583
Cash flows from investing activities		
Repayments of note receivable - affiliate	30,515	24,968
Proceeds from sale of investments	868,363	465,940
Purchases of investments	(992,368)	(547,328)
Proceeds from maturity of certificates of deposit	124,801	-
Purchases of property and equipment	(106,838)	(44,707)
Increase in restricted cash equivalents	(306)	(307)
Net cash used in investing activities	(75,833)	(101,434)
Cash flows from financing activities		
Principal repayments on mortgage payable	(60,266)	(57,707)
Net cash used in financing activities	(60,266)	(57,707)
Net increase in cash and cash equivalents	219,459	57,442
Cash and cash equivalents, beginning	601,318	543,876
Cash and cash equivalents, ending	$ 820,777	$ 601,318
Supplemental disclosure of cash flows information		
Cash paid during the year for:		
Interest	$ 60,698	63,266

NATIONAL ASSOCIATION OF CREDIT MANAGEMENT, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Description of organization and operations

The National Association of Credit Management, Inc. (NACM) was founded in 1896 to enhance, promote, and protect the interests of commercial or business credit grantors in all industries. As a 501(c)(6) organization, NACM is the educational training resource for its member companies, represented by their individual employees who are responsible for making the independent decision to extend commercial credit to its business customers. NACM's role is to advance the profession of business/commercial credit management through education and information while connecting its members to a strong, national network of knowledgeable experts in areas that impact commercial credit. NACM monitors federal legislation and works to educate Congress on the differences between consumer and commercial credit and about the issues that impact business credit.

NACM's wholly owned subsidiary, FCIB-NACM, Inc. (FCIB) was founded in 1919 to foster and facilitate the exchange of business credit and financial information, which is critical to making sound global commercial credit decisions. FCIB is an information resource for its multinational and global company members, represented by the individuals who make the independent decision to extend commercial credit to its business customers. FCIB resells international business credit reports to its members and others and manages global credit exchange groups which discuss best practices in global credit management. Activities within FCIB are taxable.

FCIB's wholly owned subsidiary, FCIB Europe, LLC (FCIB Europe) was formed in November 2006 as a Maryland Limited Liability Company to facilitate training and meetings for its members in Europe, Africa, the Middle East, and Asia. FCIB Europe is consolidated with NACM and is treated as a disregarded entity for income tax reporting purposes.

NACM's wholly owned subsidiary, The Service Corporation of NACM (Service Corp.) was incorporated under the laws of the State of New York in 1933 and is the publisher of the association's magazine, *Business Credit*, electronic newsletter, *eNews*, and website. In 2007, NACM expanded its services offered through the Service Corp. by creating Secured Transaction Services to support companies engaged in the building and construction industry. Secured Transaction Services products include effecting construction notices to an owner that a company is on a job site, facilitating the filing of a mechanic's lien for materials for construction projects, or filing UCC financing statements to ensure that companies are timely paid for services and materials or positioned as a secured creditor. Activities within Service Corp. are taxable.

In 1995, NACM, FCIB, and the Service Corporation were reincorporated under the laws of the State of Maryland.

NACM's wholly owned subsidiary, the National Association of Credit Management Realty Corporation (Realty Corp.), was incorporated in Maryland in 1995, organized under Section 501(c)(2) of the Internal Revenue Code. The purpose of the Realty Corp. is to hold title to real and personal property and to collect rental income.

1. Description of organization and operations (continued)

Under the laws of the State of Maryland in 2005, NACM incorporated its charitable foundation, the NACM Scholarship Foundation, Inc. (the Foundation). The Foundation is operated exclusively for educational purposes, specifically to fund education in the area of credit management by providing scholarships. The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

NACM's programs are:

Conventions consist of the Credit Congress and Exposition which is an annual gathering for credit professionals and providers of services to the business credit arena.

Education:

- Courses and programs capture revenues from the Graduate School of Credit & Financial Management; FSA I and FSA II, the Credit Learning Center, Business Credit Principles, and NACM Self Study courses; and NACM and FCIB online courses.
- Designations include all revenues related to NACM and FCIB designations and certifications (CBA, CBF, CCE, CCRA, CICP, and ICCE).

Publications relates to the sales of self-study courses and books, including the *Manual of Credit and Commercial Laws* and the *Principles of Business Credit*.

The Credit and Financial Development Division (CFDD) advances the profession of business/commercial credit management through education and information while connecting its members to a strong, national network of knowledgeable experts in areas that impact commercial credit.

FCIB Division is an education and information resource for multinational and global company members, represented by the individuals who make the independent decision to extend commercial credit to business customers.

2. Summary of significant accounting policies

Basis of consolidation
The consolidated financial statements include the accounts of NACM and its wholly owned subsidiaries, FCIB, Service Corp., Realty Corp., and the Foundation (together, the Association). All significant intercompany items have been eliminated in consolidation. The accompanying consolidated financial statements do not include the assets and accounts of local member associations, each of which is autonomous and not under the direction or control of NACM.

Basis of accounting
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

2. Summary of significant accounting policies (continued)

Basis of presentation
The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no temporarily or permanently restricted net assets at December 31, 2017 or 2016.

Cash and cash equivalents
The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, unless specifically designated for long-term investment. Cash and cash equivalents held by the investment custodian to facilitate investment transactions or for investment are included in investments in the Consolidated Statements of Financial Position. Cash pledged as collateral for a corporate credit card account is excluded from cash and cash equivalents and is included in restricted cash equivalents in the Consolidated Statements of Financial Position.

Certificates of deposit
The Association invests in certificates of deposit (CDs) that are not debt instruments. CDs with original maturities of less than one year are classified as short-term. CDs with original maturities greater than one year are classified as long-term.

Investments
Investments are included in these statements at the market prices that were in effect as of the date of the Consolidated Statements of Financial Position, which may differ from the amount ultimately realized at the time of sale. The difference may be material. Realized and unrealized gains and losses are reflected in the Consolidated Statements of Activities.

Accounts receivable
The Association grants trade credit. Receivables are valued at management's estimate of the amount that will ultimately be collected. The allowance for doubtful accounts is based on specific identification of uncollectible amounts and historical collection experience. The allowance at December 31, 2017 and 2016 was $4,693 and $5,217, respectively.

Accounts receivable are concentrated in members, credit card companies, and affiliated organizations substantially all of which are located in the United States. All probable bad debt losses related to accounts receivable have been appropriately recognized as expense. In general, the Association does not require collateral in relation to these receivables.

Publications inventory
Inventory consists primarily of publications and brochures and is valued at the lower of cost or market, with cost determined by using the first-in, first-out method. Inventory is presented net of a reserve for obsolescence of $4,394 and $4,633 at December 31, 2017 and 2016, respectively.

2. Summary of significant accounting policies (continued)

Prepaid expenses

Prepaid expenses represent costs paid prior to year-end for education programs, meetings, and other program activities that will occur in the subsequent year. The expenses will be recognized as the respective activities occur.

Property and equipment

Property and equipment are stated at cost. Individual purchases and improvements of $500 or more, which prolong the useful life of an asset, are capitalized, while expenditures for small items, maintenance, and minor repairs are expensed as incurred.

Depreciation and amortization are calculated under the straight-line method once the asset has been placed in service and are provided for on a consistent basis, based upon the estimated useful life of the particular asset.

Website and online education courses

The costs of purchased and internally developed website and online education courses are being amortized over their useful lives on a straight-line basis.

Restricted cash equivalents

The Association has a corporate credit card account with a major credit card company. The account is secured by a certificate of deposit (CD) held in an account at the same financial institution and is shown on the Consolidated Statements of Financial Position as restricted cash equivalents. The CD automatically renews upon maturity. Income generated from the CD is reinvested and becomes part of the collateral.

Restricted and unrestricted support and revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restriction.

Revenue recognition

Membership dues are recorded as revenue during the applicable membership period. Advertising revenues are recorded as revenue when the applicable publications are issued. Revenue from conferences, meetings, and workshops is recognized upon completion.

2. Summary of significant accounting policies (continued)

Research and development costs
Research and development costs are charged to operations when incurred and are included in operating expenses, except for the development costs related to the Association's online education courses, which are capitalized and amortized over their useful life.

Advertising
Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2017 and 2016 was $34,194 and $37,888, respectively.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

- *Level 1*: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date (e. g., equity securities traded on the New York Stock Exchange).
- *Level 2*: Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (e. g., quoted market prices of similar assets or liabilities in active markets, or quoted market prices for identical or similar assets or liabilities in markets that are not active).
- *Level 3*: Level 3 inputs are unobservable (e. g., a company's own data) and should be used to measure fair value to the extent that observable inputs are not available.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of the unobservable inputs.

3. Correction of an error

During the year ended December 31, 2017, the Association determined that it incorrectly reported net assets held by the Foundation as temporarily restricted. The Association has concluded that, given the absence of any written documentation regarding restriction for time or purpose, this portion of the Foundation's net asset balance meets the guidance for being recognized as Board designated net assets. As a result, $186,612 of the Association's beginning net assets for the year ended December 31, 2016 have been reclassified from temporarily restricted to Board designated.

4. Investments and fair value measurement

The following are the major categories of assets measured at fair value on a recurring basis as of December 31, 2017 and 2016 and for the years then ended, using quoted prices in active markets for identical assets (Level 1) and quoted prices in markets that are not active or for significant other observable inputs (Level 2). All assets have been valued using a market approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in the valuation techniques during the current year.

December 31, 2017	Total	Level 1	Level 2
Money market mutual funds	$ 99,573	$ -	$ 99,573
Equity mutual funds and ETFs	905,746	905,746	-
Fixed income mutual funds	198,791	198,791	-
Corporate bonds	989,705	-	989,705
Total investments	$ 2,193,815	$ 1,104,537	$ 1,089,278

December 31, 2016	Total	Level 1	Level 2
Money market mutual funds	$ 107,323	$ -	$ 107,323
Equity mutual funds and ETFs	740,428	740,428	-
Fixed income mutual funds	387,471	387,471	-
Corporate bonds	585,964	-	585,964
Municipal bonds	100,056	-	100,056
US agency bond	24,391	-	24,391
Total investments	$ 1,945,633	$ 1,127,899	$ 817,734

5. Property and equipment

As of December 31, property and equipment consists of the following:

	2017	2016
Building	$ 2,190,686	$ 2,203,368
Furniture and fixtures	522,023	522,023
Office equipment	198,516	184,894
Software	473,206	473,509
Tenant improvements	50,185	10,100
Website and online education courses	408,883	391,049
Subtotal of depreciable property and equipment	3,843,499	3,784,943
Less accumulated depreciation and amortization	2,495,811	2,428,513
Subtotal of net depreciable property and equipment	1,347,688	1,356,430
Tenant improvements not yet placed in service	-	26,846
Land	605,020	605,020
Total property and equipment, net	$ 1,952,708	$ 1,988,296

Depreciation and amortization expense on property and equipment for the years ended December 31, 2017 and 2016 was $109,374 and $128,091, respectively.

6. Note receivable – affiliate

During 2011, the Association's Board of Directors approved a plan to assist an affiliate in accordance with NACM's Affiliate Assistance Program. According to the terms of the promissory note, NACM provided working capital for the affiliate through a line of credit that was not to exceed $250,000 at a rate of interest equal to the prime rate, as published in the Wall Street Journal, plus 0.25% per annum. All dues receivable that were past due from the affiliate and legal fees associated with creating and executing the documents were deducted from the available line of credit, which is required to be secured by all assets of the affiliate, with mortgages and/or UCC filings (on all property, furniture, fixtures and receivables). Monthly interest payments began upon borrowing. Beginning June 1, 2012, the affiliate made monthly principal and interest payments on the outstanding principal amount. The remaining principal balance and any accrued interest was due on June 1, 2017, however, during 2016 the Association's Board of Directors approved a request from the affiliate to refinance the note to remove the balloon payment and extending the monthly payments through March of 2018 with no change to the interest rate.

6. Note receivable – affiliate (continued)

Funds advanced at December 31, 2017 and 2016 were $7,797 and $38,312, respectively. For the years ended December 31, 2017 and 2016, interest of $855 and $2,055, respectively, had been received. Management deems the receivable to be fully collectible and, as such, no allowance is necessary.

7. Deferred revenue

Deferred revenue includes monies received in advance for various activities. As of December 31, deferred revenue consists of the following:

	2017	2016
Dues	$ 136,375	$ 141,399
Expo and Credit Congress	297,271	343,993
Online courses	71,380	79,535
Grad school	63,050	27,462
Meetings and events	1,790	3,440
Other	11,432	20,214
Total deferred revenue	$ 581,298	$ 616,043

8. Mortgage payable

The Association has a mortgage payable with a bank with an original principal balance of $1,850,000. The agreement calls for a fixed interest rate of 3.99%, monthly principal and interest payments of $10,098 and a balloon payment of $1,005,286 due on September 2, 2024. In addition, up to 20% of the principal balance on January 1 of each year can be prepaid without any prepayment penalty. The collateral for the mortgage is the building and land. The mortgage is guaranteed by each entity in the consolidated group. As of December 31, the mortgage payable consists of the following:

	2017	2016
Mortgage payable	$ 1,472,755	$ 1,533,021
Less unamortized debt issuance costs	20,000	23,000
	1,452,755	1,510,021
Less current portion	62,750	60,266
Mortgage payable, noncurrent portion	$ 1,390,005	$ 1,449,755

8. Mortgage payable (continued)

Future maturities of the mortgage payable are as follows:

Years ending December 31:		
2018	$	62,750
2019		65,401
2020		67,944
2021		70,896
2022		73,818
Thereafter		1,131,946
		1,472,755
Less current portion		62,750
Less unamortized debt issuance costs		20,000
Long-term portion	$	1,390,005

Interest expense attributable to the mortgage payable was $63,698 and $66,266 for the years ended December 31, 2017 and 2016, respectively, including $3,000 each year in amortization of debt issuance costs..

9. Line of credit

The Association maintains a $200,000 secured bank line of credit. The line has a one-year term and includes a due-on-demand feature. Interest, at a variable rate based on changes in an index set at the lender's discretion, is payable monthly. Terms of the agreement require the Association to achieve certain financial covenants. At December 31, 2017 and 2016 the Association is in compliance with those requirements. The collateral for the line of credit is the accounts receivable, publications inventory and property and equipment. There was no balance due at December 31, 2017 and 2016.

10. Operating leases

The Association is a lessor of office space under two operating leases which expire at various dates through 2024. Rental income from these leases was $108,899 and $115,296 for the years ended December 31, 2017 and 2016, respectively.

10. Operating leases (continued)

Future minimum rental income under the leases for the years ending December 31 are as follows:

2018	$ 110,416
2019	113,274
2020	68,947
2021	71,016
2022	73,146
Thereafter	81,634
Total	$ 518,433

The Association leases office equipment under leases with varying expiration dates through August 2020. Future minimum lease payments under operating leases for the years ending December 31 are as follows:

2018	$ 20,918
2019	15,818
2020	3,745
Total	$ 40,481

Rental expense under operating leases was $14,712 and $16,994, for the years ended December 31, 2017 and 2016, respectively.

11. 401(k) plan

The Association provides a defined contribution savings retirement plan in accordance with Internal Revenue Code Section 401(k). The plan covers substantially all employees, age 21 or over, who meet the terms of service requirements. The Association elects annually to make a matching and profit sharing contribution for eligible employees. For the years ended December 31, 2017 and 2016, contributions to the retirement plan were $83,531 and $103,712, respectively.

12. Board designated net assets

Unrestricted net assets include $217,397 and $192,668 at December 31, 2017 and 2016, respectively, which has been designated by the Board for CFDD scholarships.

13. Functional allocation of expenses

Total program, management and general, and fundraising expenses for the years ended December 31, were as follows:

	2017	2016
Program expenses	$ 5,263,300	$ 5,512,185
Management and general expenses	914,703	939,864
Fundraising expenses	5,124	4,601
Total expenses	$ 6,183,127	$ 6,456,650

Program service expenses are those that directly relate to the Association's revenue producing programs in four major areas: conventions, education, publications, and the Credit and Financial Development Division (CFDD).

Management and general expenses are those that are incurred for the benefit of members but not directly related to specific revenue producing functions, or which are for the general administration of the Association. These include managerial, financial, and administrative services. Fundraising expenses are incurred for activities designed to encourage contributions.

14. Income taxes

The Association performed an evaluation of uncertain tax positions for the years ended December 31, 2017 and 2016, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. None of the Association's income tax returns are currently under examination.

NACM and Realty Corp.
NACM is a professional organization that qualifies under Section 501(c)(6) of the Internal Revenue Code and is exempt from federal income tax. Realty Corp. is organized under Section 501(c)(2) of the Internal Revenue Code and is exempt from income tax. However, income derived from sources unrelated to the entity's tax-exempt purpose is subject to tax. NACM had no taxable unrelated business income for the years ended December 31, 2017 and 2016.

The income tax expense of $3,413 and $528 for the years ended December 31, 2017 and 2016 represents taxes on Realty Corp.'s unrelated business income.

Foundation
The Foundation is exempt from federal income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code. Income, except that derived from sources unrelated to the entity's tax-exempt purpose, is not subject to tax. For the years ended December 31, 2017 and 2016, the Foundation had no unrelated business income.

14. Income taxes (continued)

FCIB and Service Corp
FCIB and Service Corp are taxable entities and are, therefore, subject to federal and state income taxes. FCIB and Service Corp. file separate income tax returns.

At December 31, 2017, FCIB had net operating loss carry forwards of $135,242 which will expire at various years between 2034 and 2037. For 2017 and 2016 FCIB had no income tax expense. The net deferred income tax assets for FCIB at December 31, 2017 and 2016 are $37,955 and $17,052, respectively. FCIB has reflected a 100% valuation allowance against net deferred tax assets each year, due to uncertainty about its ultimate realization.

At December 31, 2017, Service Corp. had net operating loss carry forwards of $4,520,300 which will expire in various years between 2020 and 2037. The net deferred income tax assets for Service Corp. at December 31, 2017 and 2016 are $1,786,500 and $1,782,000, respectively. Service Corp. has reflected a 100% valuation allowance against net deferred tax assets each year, due to uncertainty about its ultimate realization.

15. Concentrations of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist of cash. The Association maintains its cash in commercial banks that are insured by the Federal Deposit Insurance Corporation (FDIC). The Association has amounts on deposit with banks, which at times exceed the FDIC insured threshold. Cash and cash equivalents in excess of FDIC-insured limits at December 31, 2017 approximated $254,000.

16. Commitments

The Association has entered into agreements with vendors for various meetings in future years. The contracts contain contingency clauses whereby the Association is liable for cancellations. The monetary restitution varies among contracts, but generally is based on expenses incurred by the vendor up to the date of cancellation as well as additional cancellation and attrition fees.

17. Subsequent events

Management of the Association has evaluated events or transactions that occurred after December 31, 2017 through March 22, 2018, the date the consolidated financial statements were available to be issued and has determined that no subsequent events or transactions have occurred that require recognition or disclosure in the consolidated financial statements.