

annual report **2016**

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Financial Statements

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National Minority Supplier
Development Council



NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

**Financial Statements and Supplementary Information
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.
Financial Statements and Supplementary Information
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
National Minority Supplier Development Council, Inc.

We have audited the accompanying financial statements of National Minority Supplier Development Council, Inc. (the Council), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Minority Supplier Development Council, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited National Minority Supplier Development Council, Inc.'s December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

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

Mitchell Titus, LLP

June 14, 2017

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statements of Financial Position

As of December 31, 2016 and 2015

	December 31,	
	2016	2015
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 964,083	\$ 2,185,539
Accounts receivable, net	1,223,252	861,894
Prepaid expenses	132,972	119,074
Total current assets	2,320,307	3,166,507
Cash - collateral	169,128	169,094
Long-term investments	7,958,349	6,916,259
Furniture, fixtures, equipment and leasehold improvements, net	1,027,550	1,507,553
Security deposits	860	860
Total assets	\$ 11,476,194	\$ 11,760,273
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 859,661	\$ 594,980
Due to regional councils	1,351,802	1,229,425
Deferred revenue	1,803,550	2,015,775
Total current liabilities	4,015,013	3,840,180
Deferred compensation	374,071	322,986
Deferred rent credits	219,325	268,697
Total liabilities	4,608,409	4,431,863
Commitment and contingencies		
<i>Net assets</i>		
<i>Unrestricted</i>		
Board-designated	1,324,550	1,284,230
Unrestricted	5,438,235	5,939,180
Temporarily restricted	5,000	5,000
Permanently restricted	100,000	100,000
Total net assets	6,867,785	7,328,410
Total liabilities and net assets	\$ 11,476,194	\$ 11,760,273

The accompanying notes are an integral part of these financial statements.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statement of Activities

For the Year Ended December 31, 2016

(With Summarized and Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
REVENUE					
Special event	\$ 957,700	\$ -	\$ -	\$ 957,700	\$ 945,600
<i>Less: Direct benefit to donor costs</i>	<u>217,200</u>	<u>-</u>	<u>-</u>	<u>217,200</u>	<u>236,000</u>
	740,500	-	-	740,500	709,600
Membership dues	9,254,750	-	-	9,254,750	9,125,910
Seminar registration, trade show, and meeting fees	4,071,159	16,192	-	4,087,351	3,867,597
Contributions	1,760,850	168,358	-	1,929,208	1,548,079
In-kind contributions	31,682	-	-	31,682	27,682
Investment income	108,117	-	-	108,117	191,421
Other income	751,317	318,199	-	1,069,516	615,832
<i>Net assets released from restrictions</i>					
Purpose restrictions satisfied	<u>502,749</u>	<u>(502,749)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>17,221,124</u>	<u>-</u>	<u>-</u>	<u>17,221,124</u>	<u>16,086,121</u>
EXPENSES					
<i>Program services</i>					
Field operations	7,693,379	-	-	7,693,379	7,569,733
Member services	1,116,388	-	-	1,116,388	1,252,999
Annual conference	3,100,329	-	-	3,100,329	2,858,006
Business opportunity exchange	677,693	-	-	677,693	600,681
Programs and enterprise learning	913,580	-	-	913,580	658,958
Other program services	<u>127,877</u>	<u>-</u>	<u>-</u>	<u>127,877</u>	<u>172,170</u>
Total program services	<u>13,629,246</u>	<u>-</u>	<u>-</u>	<u>13,629,246</u>	<u>13,112,547</u>
<i>Supporting services</i>					
General administration	3,450,462	-	-	3,450,462	2,892,545
Fund development	<u>602,041</u>	<u>-</u>	<u>-</u>	<u>602,041</u>	<u>528,900</u>
Total supporting services	<u>4,052,503</u>	<u>-</u>	<u>-</u>	<u>4,052,503</u>	<u>3,421,445</u>
Total expenses	<u>17,681,749</u>	<u>-</u>	<u>-</u>	<u>17,681,749</u>	<u>16,533,992</u>
Change in net assets	(460,625)	-	-	(460,625)	(447,871)
Net assets, beginning of year	<u>7,223,410</u>	<u>5,000</u>	<u>100,000</u>	<u>7,328,410</u>	<u>7,776,281</u>
Net assets, end of year	<u>\$ 6,762,785</u>	<u>\$ 5,000</u>	<u>\$ 100,000</u>	<u>\$ 6,867,785</u>	<u>\$ 7,328,410</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (460,625)	\$ (447,871)
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities</i>		
Depreciation and amortization	645,272	695,990
Amortization of deferred rent credits	(49,372)	(49,372)
Unrealized depreciation on investments	102,755	15,304
<i>Change in assets/liabilities</i>		
Increase in accounts receivable, net	(361,358)	(24,356)
(Increase) decrease in prepaid expenses	(13,898)	205,707
Increase (decrease) in accounts payable and accrued expenses	264,681	(251,516)
Increase in due to regional councils	122,377	404,919
(Decrease) increase in deferred revenue	(212,225)	367,155
Increase in deferred compensation	51,085	22,869
Net cash provided by operating activities	<u>88,692</u>	<u>938,829</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,457,004)	(1,304,275)
Proceeds from maturity/sale of investments	312,124	1,068,335
Purchases of furniture, fixtures, and equipment, and leasehold improvements	<u>(165,268)</u>	<u>(321,985)</u>
Net cash used in investing activities	<u>(1,310,148)</u>	<u>(557,925)</u>
Net (decrease) increase in cash and cash equivalents	(1,221,456)	380,904
Cash and cash equivalents, beginning of year	<u>2,185,539</u>	<u>1,804,635</u>
Cash and cash equivalents, end of year	<u>\$ 964,083</u>	<u>\$ 2,185,539</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 1 ORGANIZATION

National Minority Supplier Development Council, Inc. (the Council) advances business opportunities for certified minority business enterprises (MBEs) and connects them to corporate members.

The Council, a not-for-profit organization incorporated in Illinois, is a publicly supported organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

As of and for the years ended December 31, 2016 and 2015, the Council had 23 regional councils across the country, respectively. The regional councils certify and match minority-owned businesses with member corporations that want to purchase their products and services. Effective January 1, 2014, a new funding model was adopted that allocates a portion of the national dues collected as follows: a) 70% is divided equally among all regional councils; (b) 10% is allocated as a headquarter stipend based on national member headquarter locations; and (c) 20% is allocated as a performance bonus according to performance metrics agreed upon by the Council and the regional councils. A percentage of the membership renewal dues are set aside to provide fringe benefits and training for regional council staff and technology tools and software upgrades. In addition, selected regional councils share in the profits earned from the annual conference and business opportunity exchange.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net Asset Classifications

The Council reports information regarding its financial position and activities according to three net asset classes: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions on behalf of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Unrestricted net assets can be utilized to carry out any purpose of the Council.

Temporarily restricted: Net assets used by the Council and subject to donor imposed stipulations that can be fulfilled by actions of the Council pursuant to those stipulations or that expire with the passage of time.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Asset Classifications *(continued)*

Permanently restricted: Net assets subject to donor-imposed stipulations and that are maintained permanently by the Council as specified by the donor.

Contributions

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 contributions are recorded as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a donor's restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind contributions, donated services, and materials are recorded at the fair value on the date of donation.

Membership Dues

Certain firms in private industry that desire membership in the Council are required to pay annual membership dues in amounts determined by the Council's Board of Directors. Dues are deferred until recognized as income based on the fiscal period for which they are assessed.

Furniture, Fixtures, Equipment, and Leasehold Improvements

Furniture, fixtures, and equipment are carried at cost and are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the term of the lease. Equipment and furniture and fixtures are capitalized if they cost \$500 or more and have a useful life when acquired of more than one year. Estimated useful lives are as follows:

Leasehold improvements	6–12.5 years (or the remaining lease term, if shorter)
Equipment	5 years
Furniture and fixtures	7 years

Cash Equivalents

For purposes of the statement of cash flows, the Council considers all highly liquid debt instruments purchased with a maturity of 90 days or less to be cash equivalents.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reclassification of Prior-Year's Totals

Certain prior-year comparative totals were reclassified to conform to the current-year's presentation.

Investments

Investments are stated at fair value.

The Council values its investments in accordance with a hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement) when market prices are not readily available or reliable.

The three levels of the hierarchy under fair value measurements are described below:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs, which are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, credit risk, and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Council's own assumptions and would be based on the best information available.

Changes in valuation techniques could result in transfers in or out of an assigned level within the hierarchy.

Interest income, including unrealized appreciation/depreciation earned on investments, is recognized as unrestricted revenue unless specifically restricted for use by the donor.

Functional Allocations of Expenses

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements

The Council adopted the principles of the Financial Accounting Standards Board (FASB) ASU 2015-15, *Presentation of Financial Statements – Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* (ASU 2015-15). ASU 2015-15 defines management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern within one year after the financial statements are issued and to provide related footnote disclosures. The requirements of ASU 2015-15 are effective for annual periods ending after December 15, 2016.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires an amended presentation and disclosure to help not-for-profit organizations provide more relevant information about their resources and changes in those resources. The amendments are effective for the Council’s fiscal year ending December 31, 2018, with early adoption permitted. This ASU will impact the presentation of the Council’s financial statements and related disclosures when it is adopted. Management is evaluating the impact of adopting these requirements.

NOTE 3 CONCENTRATION OF RISK

At December 31, 2016 and 2015, cash balances at financial banking institutions exceeded the federally insured limit of \$250,000. Management regularly monitors the financial condition of the banking institutions, along with their cash balances, and endeavors to keep the potential risk to a minimum.

The Council’s investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Council’s financial position and the level of risk inherent in most investments, it is reasonably possible that the changes in the values of these investments could occur in the near term. The changes could materially affect the amounts reported in the financial statements. Management believes that the diversification of its investments among the various asset classes (see Note 4) should mitigate the impact of changes in any one asset class.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 4 INVESTMENTS

Investments held at December 31, 2016 and 2015, consisted of the following:

	2016 Fair Value	2015 Fair Value
Certificates of deposit	\$ 568,067	\$ 818,594
Annuities	5,596,293	4,468,510
Mutual funds	332,448	276,267
Money market funds	579,597	1,770,205
Real estate investment trusts	1,563,124	1,449,342
Artwork	25,922	25,922
	<u>\$ 8,665,451</u>	<u>\$ 8,808,840</u>
<i>Statement of financial position reconciliation</i>		
Amounts reflected as cash equivalents	\$ 537,974	\$ 1,723,486
Amount designated for cash collateral	169,128	169,094
Long-term investments	7,958,349	6,916,259
Total investments	<u>\$ 8,665,451</u>	<u>\$ 8,808,840</u>

Certificates of deposit at December 31, 2016 and 2015 consisted of amounts on deposit at financial institutions, with interest rates ranging from 0.15% to 4.8% and with various maturity dates.

Annuities represent (i) a \$1,000,000 seven-year, fixed annuity with New York Life Insurance Company, with a guaranteed principal provision, a 5.6% guaranteed interest rate to July 22, 2010, and a 3% minimum guaranteed interest rate after July 22, 2010; (ii) two five-year annuities of \$500,000 each with Allstate Insurance Company of New York, with a guaranteed principal provision and a 2.5% minimum guaranteed interest return on both annuities; (iii) a \$500,000 five-year, fixed annuity with Valic Insurance Company, with a guaranteed principal provision, a 4% guaranteed interest rate for the first year, and a 3% minimum guaranteed interest rate after the first year. An additional \$1,000,000 investment was added to this policy in 2016 with a guaranteed interest rate of 3%; (iv) a \$500,000 10-year, fixed annuity with Allianz Life Insurance Company of New York with a guaranteed principal provision; (v) a \$400,000 seven-year, fixed annuity with Genworth Life Insurance Company with a guaranteed principal provision, a 3.6% guaranteed interest rate for the first three years and a 1% minimum guaranteed interest rate thereafter; and (vi) a \$400,000 seven-year, fixed indexed annuity with Integrity Life Insurance Company with a guaranteed principal provision and guaranteed interest based on positive changes in market indexes never to be less than zero. The balances recorded include the accrued interest that has been reinvested into the respective annuity.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 4 INVESTMENTS *(continued)*

Investment income for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
<i>Investment income</i>		
Interest and dividends	\$ 210,872	\$ 206,725
Net unrealized and realized losses	<u>(102,755)</u>	<u>(15,304)</u>
	<u>\$ 108,117</u>	<u>\$ 191,421</u>

The following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Certificates of deposit (traditional), money market funds, and artwork: Valued at cost, which approximates fair value.

Market-linked certificates of deposits: Valued on the basis of the performance of the underlying assets.

Annuities: Valued at contract value, which approximates fair value, which represents deposits and reinvested interest, less any withdrawals plus accrued interest.

Mutual funds: Valued at the daily closing price reported in the active market in which the individual securities are traded. The open-ended mutual funds are registered with the Securities and Exchange Commission. These mutual funds are required to publish their daily net asset value (NAV) and transact at that price. The mutual funds held by the Council are deemed to be actively traded.

Real estate investment trusts (REITs): Valued based on the valuations of the real estate investments, including estimates of value that were determined by the management of the REITs and independent third parties using common methodologies used in the commercial real estate industry, including discounted cash flow analyses and reviews of current, historical, and projected capitalization rates for comparable properties.

The preceding methods described may produce a fair value calculation that may not indicate net realizable value or reflect future fair values. Furthermore, although the Council 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 may result in a different fair value measurement at the reporting date.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 4 INVESTMENTS (continued)

The following tables set forth by level, within the fair value hierarchy, the Council's investments at fair value on a recurring basis, as of December 31, 2016 and 2015:

Assets at Fair Value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
<i>Mutual funds</i>				
Equity and income funds	\$ 110,443	\$ -	\$ -	\$ 110,443
Total return funds	25,331	-	-	25,331
Income and growth funds	49,403	-	-	49,403
Other funds	147,271	-	-	147,271
	<u>332,448</u>	<u>-</u>	<u>-</u>	<u>332,448</u>
Money market funds	-	579,597	-	579,597
Certificates of deposit	-	568,067	-	568,067
Annuities	-	5,596,293	-	5,596,293
Real estate investment trusts	-	-	1,563,124	1,563,124
Artwork	-	-	25,922	25,922
Total investments, at fair value	\$ 332,448	\$ 6,743,957	\$ 1,589,046	\$ 8,665,451
Assets at Fair Value as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
<i>Mutual funds</i>				
Equity and income funds	\$ 115,413	\$ -	\$ -	\$ 115,413
Value fund	50,580	-	-	50,580
Income and growth funds	49,022	-	-	49,022
Other funds	61,252	-	-	61,252
	<u>276,267</u>	<u>-</u>	<u>-</u>	<u>276,267</u>
Money market funds	-	1,770,205	-	1,770,205
Certificates of deposit	-	818,594	-	818,594
Annuities	-	4,468,510	-	4,468,510
Real estate investment trusts	-	-	1,449,342	1,449,342
Artwork	-	-	25,922	25,922
Total investments, at fair value	\$ 276,267	\$ 7,057,309	\$ 1,475,264	\$ 8,808,840

Transfers between level categories may occur due to changes in the availability of market observable inputs, which are usually caused by changes in market conditions such as availability of market observable quoted prices, liquidity, trading volume, or bid-ask spreads. Transfers in and out of level categories are reported as having occurred at the beginning of the year in which the transfer occurred.

The Council's Vice President of Finance and Administration reviews REITs' monthly statements to assess the reasonableness of the fair values. In addition, the Council uses a third-party investment advisor to assist in determining the fair values of the REITs. The investment advisor reports to the President and the Vice President of Finance and Administration of the Council. The President and Vice President of Finance and Administration report to the Finance Committee and the Treasurer who reports to the Board of Directors. The Executive Committee meets at least three times each year.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 4 INVESTMENTS *(continued)*

The following tables represent the Council's Level 3 assets, the valuation techniques used to measure the fair value of those assets, and the significant unobservable inputs used in the fair value measurement as of December 31, 2016 and 2015:

2016			
Asset	Fair Value	Principal Valuation Technique	Unobservable Inputs
Real estate investment trusts	\$ 1,563,124	Real estate valuations	Weighted-average cost of capital Volatility of credit
		Current, historical, and projected capitalization rates	Long-term revenue growth Long-term pretax operating margin
		Discounted cash flow	Lack of marketability and illiquid shares
Artwork	25,922	Appraisals	Lack of marketability

2015			
Asset	Fair Value	Principal Valuation Technique	Unobservable Inputs
Real estate investment trusts	\$ 1,149,342	Real estate valuations	Weighted-average cost of capital Volatility of credit
		Current, historical, and projected capitalization rates	Long-term revenue growth Long-term pretax operating margin
		Discounted cash flow	Lack of marketability and illiquid shares
Artwork	25,922	Appraisals	Lack of marketability

The significant unobservable inputs used in the fair value measurement of the REITs are the weighted-average cost of capital, the volatility of credit, and the discount for lack of marketability and illiquid shares; and for the artwork the significant unobservable input used was discount for lack of marketability. Significant changes in any of those inputs in isolation would result in a significant change in the fair value measurement.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 4 INVESTMENTS (continued)

The table below is a reconciliation of Level 3 assets for the year ended December 31, 2016:

	Real Estate Investment Trusts	Artwork	Total
Beginning balance	\$ 1,449,342	\$ 25,922	\$ 1,475,264
Purchases	266,780	-	266,780
Sales	(108,924)	-	(108,924)
Investment appreciation	(127,193)	-	(127,193)
Interest	83,119	-	83,119
	<u>\$ 1,563,124</u>	<u>\$ 25,922</u>	<u>\$ 1,589,046</u>

The table below is a reconciliation of Level 3 assets for the year ended December 31, 2015:

	Real Estate Investment Trusts	Artwork	Total
Beginning balance	\$ 1,090,539	\$ 25,922	\$ 1,116,461
Purchases	275,000	-	275,000
Sales	(11,749)	-	(11,749)
Investment appreciation	19,431	-	19,431
Interest	76,121	-	76,121
	<u>\$ 1,449,342</u>	<u>\$ 25,922</u>	<u>\$ 1,475,264</u>

NOTE 5 FURNITURE, FIXTURES, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, fixtures, equipment, and leasehold improvements consisted of the following at December 31:

	2016	2015
Equipment	\$ 4,322,795	\$ 4,212,482
Furniture and fixtures	600,525	555,499
Leasehold improvements	881,761	871,831
	<u>5,805,081</u>	<u>5,639,812</u>
Less: Accumulated depreciation and amortization	<u>4,777,531</u>	<u>4,132,259</u>
	<u>\$ 1,027,550</u>	<u>\$ 1,507,553</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015, amounted to \$645,272 and \$695,990, respectively.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 6 OFFICE LEASE

On November 15, 2008, the Council entered into a new lease agreement for office space set to expire on May 31, 2021, which has provisions for future rent increases and rent-free periods. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. As security for the lease, the lease agreement requires the Council to have a \$168,036 letter of credit (as of December 31, 2016) that is collateralized by a certificate of deposit owned by the Council.

During 2016 and 2015, the Council incurred \$835,170 and \$811,586, respectively, in rent and related occupancy expenses under the lease. As of December 31, 2016, minimum future annual rents under the terms of the leases are as follows:

<u>Years</u>	<u>Amounts</u>
2017	\$ 672,144
2018	672,144
2019	672,144
2020	672,144
2021	280,060
	<u>\$ 2,968,636</u>

NOTE 7 NET ASSETS

Unrestricted

Board-designated: The Council maintains and allocates dollars to an annuity investment, which includes its permanently restricted endowment amount, to maintain a minimum return of 3% for its scholarships program.

Temporarily Restricted

Temporarily restricted net assets were available to support the following program activities as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Advance Management Education Program	<u>\$ 5,000</u>	<u>\$ 5,000</u>

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 7 NET ASSETS *(continued)*

Net Assets Released from Restrictions

Net assets released from restriction based on satisfaction of purpose and/or time restriction were as follows at December 31:

	<u>2016</u>
Tuition	\$ 16,192
Small Business Administration	134,511
Minority Business Development Agency	120,563
Centers of Excellence grant and fees	63,125
Scholarships and contributions	168,358
	<u>\$ 502,749</u>

Permanently Restricted

Permanently restricted net assets represent the James H. O'Neal/PepsiCo Foundation/NMSDC Endowed Scholarship Fund. The income earned will be used to support scholarships for minority business owners who participate in the Advanced Management Education Program. Funds are invested in a seven-year annuity.

NOTE 8 ENDOWMENT

The Council's endowment assets include those assets of board-designated and donor-restricted funds that it must hold in perpetuity or for donor-specified periods.

The Council's Board of Directors has interpreted the applicable state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Council classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, if any, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 8 ENDOWMENT *(continued)*

Endowment funds as of December 31, 2016 are composed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ -	\$ 100,000	\$ 100,000
Board-designated endowment fund	1,324,550	-	-	1,324,550
Total	<u>\$ 1,324,550</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 1,424,550</u>

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	\$ 1,284,230	\$ -	\$ 100,000	\$ 1,384,230
<i>Investment return</i>				
Investment income	37,320	3,000	-	40,320
Appropriation of endowment assets for expenditure	3,000	(3,000)	-	-
Endowment net assets, December 31, 2016	<u>\$ 1,324,550</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 1,424,550</u>

Endowment funds as of December 31, 2015 are composed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ -	\$ 100,000	\$ 100,000
Board-designated endowment fund	1,284,230	-	-	1,284,230
Total	<u>\$ 1,284,230</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 1,384,230</u>

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ 1,243,471	\$ -	\$ 100,000	\$ 1,343,471
<i>Investment return</i>				
Investment income	37,759	3,000	-	40,759
Appropriation of endowment assets for expenditure	3,000	(3,000)	-	-
Endowment net assets, December 31, 2015	<u>\$ 1,284,230</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 1,384,230</u>

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 8 ENDOWMENT *(continued)*

The Council has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while maintaining their purchasing power. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to preserve the assets of donor-restricted funds that the Council intends hold in perpetuity, while assuming a low level of investment risk. The Council expects its endowment funds, over time, to provide a rate of return of approximately 3% to 4%.

Therefore, the investment objectives require disciplined and consistent management philosophies to accommodate all those relevant, reasonable, and probable events. Consequently, a periodic review of total rate of return and spending rate objectives is performed. The spending rate established by the Council is currently 3% per year.

NOTE 9 DEFERRED COMPENSATION PLANS

The Council established a deferred compensation plan under Section 457 of the IRC and a nonqualified deferred compensation plan (the Plans). The nonqualified deferred compensation plan is offered to select executives. The Plans are a vehicle to save for retirement on a tax-efficient basis. Employees may elect to defer compensation (salary/bonus) under the Plans. The Council may, at its discretion, make contributions on a selective basis. The contributions are invested in a trust and are reflected in the accompanying financial statements as long-term investments. At December 31, 2016 and 2015, the Plans' balance was \$374,071 and \$322,986, respectively. The deferred compensation plan had deposits of \$21,000; withdrawals of \$-0-; and a net gain of \$30,085 for the year ended December 31, 2016, and had deposits of \$34,150; withdrawals of \$-0- and a net loss of \$11,281 for the year ended December 31, 2015.

NOTE 10 DEFINED CONTRIBUTION PLAN

The Council has a defined contribution plan, the National Minority Supplier Development Council, Inc. Retirement Plan and Trust, for which it provides an amount equal to 5% of the base salary for eligible, full-time employees. In addition, employees are permitted to make contributions on their own behalf. The pension expense amounted to \$171,502 and \$167,488 for 2016 and 2015, respectively. The value of the fund was equal to the vested benefits therein at December 31, 2016. There were no liabilities for past service costs.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 11 IN-KIND CONTRIBUTIONS

In-kind contributions, which are reflected in the accompanying financial statements at fair value at the date of gift, included the following amounts for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Printing services—annual conference	\$ 31,682	\$ 27,682
Total in-kind contributions	<u>\$ 31,682</u>	<u>\$ 27,682</u>

NOTE 12 LEADERSHIP AWARDS

The Council sponsored its annual leadership award gala (a special event) in New York City in May 2017.

At December 31, total revenue and expenses related to the events were as follows:

	<u>2016</u>	<u>2015</u>
NMSDC—annual leadership awards		
Revenue	\$ 957,700	\$ 945,600
Direct donor benefits costs	<u>(217,200)</u>	<u>(236,000)</u>
Net special event—revenue	<u>\$ 740,500</u>	<u>\$ 709,600</u>

NOTE 13 COMPARATIVE FINANCIAL INFORMATION

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2016

NOTE 14 INCOME TAXES

U.S. GAAP requires management to evaluate uncertain tax positions taken by the Council. The financial statement effects of a tax position are recognized when the position is more-likely-than-not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management analyzed the Council's tax positions, and it concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken. The Council is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. Management believes the Council is no longer subject to income tax examinations for years prior to 2013.

NOTE 15 RELATED-PARTY TRANSACTIONS

As of and for the years ended December 31, 2016 and 2015, the Council had 24 regional councils across the country, respectively. Payments to the regional councils were \$6,970,222 and \$6,789,373 for the years ended December 31, 2016 and 2015, respectively. Amounts due to the regional councils were \$1,351,802 and \$1,229,425 as of December 31, 2016 and 2015, respectively.

NOTE 16 SUBSEQUENT EVENTS

The Council has evaluated subsequent events through June 14, 2017, which is the date the financial statements were available to be issued, and has determined that there were no subsequent events to be recognized in these financial statements.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.
Schedule of Functional Expenses
For the Year Ended December 31, 2016
(With Summarized Comparative Totals for 2015)

	Program Services						Total	Supporting Services			Total	Total Expenses	
	Field Operations	Member Services	Annual Conference	Business Opportunity Exchange	Programs & Enterprise Learning	Other Program Services		General Administration	Fund Development	Direct Benefit to Donor Costs		2016	2015
Payments to regional councils	\$ 6,788,519	\$ -	\$ 157,605	\$ 24,098	\$ -	\$ -	\$ 6,970,222	\$ -	\$ -	\$ -	\$ -	\$ 6,970,222	\$ 6,789,373
Salaries	337,820	656,904	217,528	99,703	286,620	22,733	1,621,308	1,255,434	283,273	-	1,538,707	3,160,015	2,908,788
Employee benefits	64,555	139,595	76,907	29,020	49,900	4,463	364,440	252,746	61,178	-	313,924	678,364	615,625
Administrative	39,695	33,303	522,981	17,236	59,769	163	673,147	182,932	43,773	-	226,705	899,852	783,136
Consultant and contractual services	22,187	133,828	260,767	356,265	473,922	97,617	1,344,586	462,529	69,092	-	531,621	1,876,207	1,431,382
Occupancy	8,503	-	43,601	44,179	-	-	96,283	835,170	-	-	835,170	931,453	929,572
Travel	71,632	29,706	246,961	2,802	19,847	2,901	373,849	119,320	26,150	-	145,470	519,319	451,511
Meetings and conferences	60,172	60,991	1,169,903	8,757	15,435	-	1,315,258	7,243	33,995	217,200	258,438	1,573,696	1,499,524
Printing and supplies	2,422	8,977	71,200	25,568	1,679	-	109,846	10,223	12,214	-	22,437	132,283	191,655
Other	11,715	15,573	311,393	62,735	3,079	-	404,495	53,768	54,003	-	107,771	512,266	473,436
Depreciation and amortization	286,159	37,511	21,483	7,330	3,329	-	355,812	271,097	18,363	-	289,460	645,272	695,990
Subtotal	7,693,379	1,116,388	3,100,329	677,693	913,580	127,877	13,629,246	3,450,462	602,041	217,200	4,269,703	17,898,949	16,769,992
Direct benefit to donor costs	-	-	-	-	-	-	-	-	-	(217,200)	(217,200)	(217,200)	(236,000)
Total expenses	\$ 7,693,379	\$ 1,116,388	\$ 3,100,329	\$ 677,693	\$ 913,580	\$ 127,877	\$ 13,629,246	\$ 3,450,462	\$ 602,041	\$ -	\$ 4,052,503	\$ 17,681,749	\$ 16,533,992



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NMSDC

National Minority Supplier
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