

National Roofing Contractors Association

Independent Auditor's Report and Financial Statements

May 31, 2018 and 2017

National Roofing Contractors Association
May 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
National Roofing Contractors Association
Rosemont, Illinois

We have audited the accompanying financial statements of National Roofing Contractors Association, which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years 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 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 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 Roofing Contractors Association as of May 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Oakbrook Terrace, Illinois
July 3, 2018

National Roofing Contractors Association
Statements of Financial Position
May 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 3,243,193	\$ 2,848,978
Investments	15,791,203	14,440,483
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2018 and 2017	171,648	128,855
Inventory	288,792	208,684
Prepaid expenses	286,508	102,414
Due from related parties	96,213	265,124
Total current assets	19,877,557	17,994,538
Property and Equipment		
Land	71,143	1,287,283
Furniture and fixtures	249,462	249,462
Equipment	1,222,827	1,177,599
Leasehold improvements	347,625	347,625
Building and improvements	472,446	472,446
	2,363,503	3,534,415
Less accumulated depreciation and amortization	(1,823,100)	(1,750,086)
Total property and equipment	540,403	1,784,329
Other Assets		
Video and on-line production costs, net of accumulated amortization	57,337	103,012
Investment in NRSC	171,495	-
Deferred costs	266,308	76,639
Land available for sale	1,216,140	-
Other assets	24,816	-
Total other assets	1,736,096	179,651
Total assets	\$ 22,154,056	\$ 19,958,518

Liabilities and Assets

Current Liabilities		
Accounts payable	\$ 475,417	\$ 219,334
Accrued payroll	513,277	184,247
Accrued expenses	989,324	1,036,393
Due to related parties	250,000	150,000
Unearned income	787,055	540,429
Total current liabilities	3,015,073	2,130,403
Unrestricted Net Assets	19,138,983	17,828,115
Total liabilities and net assets	\$ 22,154,056	\$ 19,958,518

National Roofing Contractors Association
Statements of Activities and Changes in Net Assets
Years Ended May 31, 2018 and 2017

	2018	2017
Unrestricted Net Assets		
Revenues		
Membership dues	\$ 7,439,442	\$ 6,666,610
Convention	142,142	142,877
Management fees, net	153,680	148,500
Royalty fees	616,805	601,569
Education conferences	1,309,357	1,340,426
Equity in net income of NRSC	171,495	-
Other income	193,520	47,771
Pac administration	180,650	179,820
Technical certifications	742,658	563,478
Other publications	703,198	561,644
Total revenues	11,652,947	10,252,695
Expenses		
Program		
Membership development	692,619	806,749
Education conferences	1,056,848	1,525,459
Technical research	1,502,330	1,370,400
Risk management	445,250	389,566
Public relations and web site	444,360	357,288
International services	89,908	111,351
Service center and audiovisuals	785,876	883,960
Magazine and print production	1,250,443	1,157,210
IT services	457,241	517,245
Meeting services	449,109	482,477
Retirement program	21,144	20,667
Government relations	1,013,015	802,601
Pro Certification development	526,348	-
NRSC reimbursement	(1,232,613)	(1,184,515)
General operations	4,511,680	4,290,795
Total expenses	12,013,558	11,531,253
Decrease in Unrestricted Net Assets Before Investment Activity	(360,611)	(1,278,558)
Investment Activity		
Interest and dividend income	696,330	454,268
Unrealized gain on investments	413,630	885,756
Realized gain on sale of investments	561,519	512,803
Total investment activity	1,671,479	1,852,827
Increase in Unrestricted Net Assets	1,310,868	574,269
Net Assets, Beginning of Year	17,828,115	17,253,846
Net Assets, End of Year	\$ 19,138,983	\$ 17,828,115

National Roofing Contractors Association
Statements of Cash Flows
Years Ended May 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Increase in unrestricted net assets	\$ 1,310,868	\$ 574,269
Items not requiring (providing) cash		
Depreciation and amortization	125,278	174,334
Equity in net income of NRSC	(171,495)	-
Realized gain on sale of investments	(561,519)	(512,803)
Unrealized gain on investments	(413,630)	(885,756)
Loss on disposal of asset	-	25,002
Changes in		
Accounts receivable	(42,793)	(8,939)
Due from related parties	168,911	66,879
Inventory	(80,108)	42,891
Prepaid expenses	(184,094)	20,130
Other assets	(24,816)	-
Accounts payable	256,083	(17,489)
Accrued payroll	329,030	20,957
Accrued expenses	(47,067)	154,332
Due to related parties	100,000	150,000
Unearned income	246,626	138,500
	<u>1,011,274</u>	<u>(57,693)</u>
Net cash provided by (used in) operating activities		
	<u>1,011,274</u>	<u>(57,693)</u>
Investing Activities		
Capital expenditures	(45,228)	(271,718)
Proceeds from sale of investments	5,978,021	9,029,593
Purchase of investments	(6,353,594)	(8,808,826)
Deferred costs	(189,669)	(76,639)
Video and on-line production costs incurred	(6,589)	(17,294)
	<u>(617,059)</u>	<u>(144,884)</u>
Net cash used in investing activities		
	<u>(617,059)</u>	<u>(144,884)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	394,215	(202,577)
Cash and Cash Equivalents, Beginning of Year	<u>2,848,978</u>	<u>3,051,555</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,243,193</u>	<u>\$ 2,848,978</u>

National Roofing Contractors Association

Notes to Financial Statements

May 31, 2018 and 2017

Note 1: Nature of Organization

National Roofing Contractors Association (NRCA) is a nonprofit trade association of roofing contractors. NRCA provides services including education, testing and research, public relations, information and the procurement of group insurance. NRCA also helps its members keep pace with new developments and techniques in the roofing industry.

Note 2: Summary of Significant Accounting Policies

Accounting Estimates

The preparation of 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. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amount billed to the customer. Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Customer account balances with invoices dated over 90 days are considered delinquent.

Accounts receivable are valued at management's estimate of the amount that will ultimately be collected. If amounts become uncollectible, they are charged against the allowance for doubtful accounts when that determination is made. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and NRCA's historical collection experience.

Financial Statement Presentation

NRCA prepares its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations, whereby NRCA reports 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. NRCA does not have any restricted net assets.

Investments

Investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities and changes in net assets.

National Roofing Contractors Association

Notes to Financial Statements

May 31, 2018 and 2017

Investment in NRSC

National Roofing Service Corporation (NRSC) was formed to contract with NRCA to produce and market advertising for certain publications. The current ownership of NRSC is NRCA (50%), National Roofing Foundation (NRF) (35%) and National Roofing Legal Resource Center (NRLRC) (15%). The investment is accounted for on the equity method.

During the fiscal year ended 2004, NRCA suspended the equity method of accounting for its investment in NRSC when NRCA's share of losses exceeded the carrying amount of the investment. NRCA's share of the income for the year ended May 31, 2017, was \$828 which was not included in the statements of activities and changes in net assets. The accumulated unrecognized income as of May 31, 2017, was \$26,498. This immaterial accumulated gain was not recognized in the May 31, 2017 statement of financial position.

Inventory

Inventories consist of roofing manuals and educational materials. Costs of the manuals are determined using the first-in, first-out (FIFO) method. FIFO inventories are stated at the lower of cost or net realizable value for 2018 and at the lower of cost or market for 2017.

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are provided on both the straight-line and the accelerated methods over the following estimated useful lives or, in the case of leasehold improvements, over the life of the lease:

Furniture and fixtures	5 - 7 years
Building and improvements	3 - 39.5 years
Equipment	3 - 7 years

Depreciation and amortization expense was \$73,015 and \$91,304 for 2018 and 2017, respectively.

Maintenance, repairs and renewals which neither materially add to the value of the property, nor appreciably prolong its life are charged to expense as incurred. Gains and losses on dispositions of property and equipment are included in income.

Land Available for Sale

NRCA entered into a Letter of Intent Agreement dated May 9, 2018, for the sale of its vacant land. The land is reflected on the statement of financial position in the amount of \$1,216,140.

National Roofing Contractors Association

Notes to Financial Statements

May 31, 2018 and 2017

Deferred Costs

NRCA is in the process of developing a certification program for roofing workers. There are currently eighteen planned certification disciplines. In addition to developing these certifications, NRCA is also developing the course training curriculums for each of these eighteen disciplines. NRCA management is capitalizing the direct outside costs associated with the development of these programs. NRCA will then amortize these costs by discipline over a five-year period beginning when revenues from the programs are earned.

Long-Lived Asset Impairment

NRCA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended May 31, 2018 and 2017.

Video and On-Line Production Costs

NRCA has capitalized certain costs pertaining to the master production of videos and on-line education programs. Video production costs are amortized based upon estimated sales over a three to five-year period. Amortization expense was \$52,263 and \$83,030 in 2018 and 2017, respectively. Accumulated amortization is \$803,755 and \$751,492 at May 31, 2018 and 2017, respectively.

Income Taxes

NRCA is exempt from federal income taxes pursuant to Section 501(c)(6) of the Internal Revenue Code. However, NRCA receives unrelated business income from its retirement plan program. NRCA is taxed at regular corporate rates on such income. NRCA recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination.

Unearned Income

Unearned income represents membership dues and other revenue received prior to rendering of services. Funds received in the current period which relate to future periods are deferred and recognized over the period to which they relate. Amounts included in unearned income are expected to be recognized as revenue during the next fiscal year.

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Notes to Financial Statements

May 31, 2018 and 2017

Cash and Cash Equivalents

NRCA considers all liquid investments with original maturities of three months or less to be cash equivalents.

Reclassifications

Certain amounts previously reported in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no effect on the prior year change in unrestricted net assets.

Note 3: Investments

Investments, at fair value, and unrealized gains and losses as of May 31, 2018 and 2017, are summarized as follows:

	2018		
	Cost	Fair Value	Unrealized Gain (Loss)
Common stock and mutual funds	\$ 9,096,627	\$ 11,100,011	\$ 2,003,384
Fixed income securities			
Government obligations	1,779,253	1,750,967	(28,286)
Corporate bonds	1,829,365	1,716,206	(113,159)
Convertible bonds	1,124,527	1,224,019	99,492
	\$ 13,829,773	\$ 15,791,203	\$ 1,961,430
	2017		
	Cost	Fair Value	Unrealized Gain (Loss)
Common stock and mutual funds	\$ 8,496,677	\$ 9,884,120	\$ 1,387,443
Fixed income securities			
Government obligations	1,753,161	1,776,739	23,578
Corporate bonds	1,791,127	1,721,159	(69,968)
Convertible bonds	1,004,111	1,058,465	54,354
	\$ 13,045,076	\$ 14,440,483	\$ 1,395,407

Investment expenses included in general operations expense on the statements of activities and changes in net assets are \$127,759 and \$118,966 for the years ended May 31, 2018 and 2017, respectively.

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Notes to Financial Statements
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Note 4: Inventory

Inventory as of May 31, 2018 and 2017, consists of the following:

	2018	2017
Roofing manuals	\$ 50,387	\$ 64,027
Other manuals and publications	238,405	144,657
	\$ 288,792	\$ 208,684

Note 5: Line of Credit

NRCA entered into a \$5,000,000 revolving line of credit agreement with a commercial bank on February 23, 2009. Borrowings bear interest at LIBOR plus bank discretionary spread of 0.55%. The note is secured by investments held. There was no outstanding balance on the line of credit as of May 31, 2018 and 2017. There was no interest expense in 2018 and 2017 related to borrowings on the line of credit. Outstanding balances are due on the bank's demand.

Note 6: Retirement Plans

Pension Plan

In fiscal year 1994, NRCA established a money purchase pension plan to be a part of the NRCA Retirement Program. The plan provides for discretionary employer contributions equal to 6% of the participant's compensation plus 5.7% of the participant's compensation in excess of the FICA limit for that year. The plan calls for a six-year vesting based on the number of years of participation.

Eligibility for participation begins at age 20½ for employees who have six months of service at March 31, the anniversary date of the program. Pension expense in 2018 and 2017 was \$331,022 and \$261,414, respectively.

401(k) Plan

NRCA established a nonmatching 401(k) tax deferred compensation plan on April 1, 1997. To be eligible to participate in this plan, the employee must be 20½ years of age.

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Note 7: Related Party Transactions

National Roofing Service Corporation (NRSC) was formed to contract with NRCA to produce and market advertising for certain publications. The stockholders of NRSC are NRCA, NRF and NRLRC.

NRCA shares facilities and incurs expenses on behalf of NRF and NRSC. NRCA receives a management fee from NRLRC and NRF. NRCA receives a royalty fee from NRSC based upon gross revenues of NRSC. Additionally, NRSC incurs printing expenses on behalf of NRCA for its member mailings. These transactions are summarized as follows:

	<u>2018</u>	<u>2017</u>
Fundraising and other administrative costs		
Paid by NRCA on behalf of NRF	\$ -	\$ 9,301
Reimbursed expenses		
Incurred by NRCA on behalf of NRSC	\$ 1,232,613	\$ 1,118,423
Incurred by NRSC on behalf of NRCA	96,087	102,337
Management fee income (expense)		
Paid to NRLRC	\$ (51,920)	\$ (51,500)
Paid by NRF	205,600	200,000
Royalty fee income from NRSC	\$ 83,136	\$ 58,435
Due to related parties		
NRF	\$ (250,000)	\$ (150,000)
Due from related parties		
NRSC	\$ 96,213	\$ 264,766

Note 8: Operating Lease

NRCA has an operating lease for its primary office facilities. The lease commenced on June 15, 1990, and continues through March 31, 2025. NRCA is generally responsible for its share of real estate taxes and other operating expenses.

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The following is a schedule of future minimum rental payments under the operating lease:

Year Ended May 31,	Minimum Rental Payment
2019	\$ 432,129
2020	444,349
2021	459,639
2022	471,092
2023	482,546
Thereafter	915,047
	\$ 3,204,802

Rent expense, including real estate taxes and operating expenses, was \$782,610 and \$707,935 for the years ended May 31, 2018 and 2017, respectively.

Note 9: Concentration of Credit Risk

NRCA maintains cash and cash equivalents and investments in balances in bank and investment accounts which, at times, may exceed insured limits provided by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). NRCA has not experienced any losses in such accounts and management believes there is no significant concentration of credit risk with respect to these accounts. At May 31, 2018, NRCA's cash and cash equivalents and investments exceeded the amount guaranteed by the FDIC or the SIPC, by approximately \$17,385,000.

Note 10: Fair Value Measurements

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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The asset's 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. There has been no change in the methodologies used at May 31, 2018 or 2017.

Fair values of assets and liabilities measured on a recurring basis at May 31, 2018 and 2017, are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
May 31, 2018				
Common stock and mutual funds				
Large cap dividend/value	\$ 2,571,454	\$ 2,571,454	\$ -	\$ -
Large cap growth	2,995,462	2,995,462	-	-
Small/mid cap funds	1,813,502	1,813,502	-	-
International	2,082,204	2,082,204	-	-
Diversified growth funds	1,637,389	1,637,389	-	-
Fixed income securities				
Government obligations	1,750,967	883,158	867,809	-
Corporate bonds	1,716,206	1,716,206	-	-
Convertible bonds	1,224,019	1,224,019	-	-
Total	\$ 15,791,203	\$ 14,923,394	\$ 867,809	\$ -
May 31, 2017				
Common stock and mutual funds				
Large cap dividend/value	\$ 2,313,716	\$ 2,313,716	\$ -	\$ -
Large cap growth	2,560,826	2,560,826	-	-
Small/mid cap funds	1,593,027	1,593,027	-	-
International	1,843,669	1,843,669	-	-
Diversified growth funds	1,572,882	1,572,882	-	-
Fixed income securities				
Government obligations	1,776,739	877,098	899,641	-
Corporate bonds	1,721,159	1,721,159	-	-
Convertible bonds	1,058,465	1,058,465	-	-
Total	\$ 14,440,483	\$ 13,540,842	\$ 899,641	\$ -

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Notes to Financial Statements
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Note 11: Investment in NRSC

Audited financial information for NRSC as of and for the year ended May 31, is as follows:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 511,890	\$ 257,531
Noncurrent assets	<u>17,188</u>	<u>103,188</u>
Total assets	<u>\$ 529,078</u>	<u>\$ 360,719</u>
Liabilities	186,089	302,224
Equity	<u>342,989</u>	<u>58,495</u>
Total liabilities and equity	<u>\$ 529,078</u>	<u>\$ 360,719</u>
Net sales	<u>\$ 1,758,805</u>	<u>\$ 1,271,044</u>
Net income	<u>\$ 284,494</u>	<u>\$ 1,655</u>

Note 12: Future Changes in Accounting Principles

Not-for-Profit Accounting Standard for Financial Reporting

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard distinguishes between two new classes of net assets, requires presentation of expenses by both nature and function, permits use of the indirect or direct method of reporting cash flows, requires certain information about liquidity, and requires additional disclosures. NRCA expects to first apply the ASU during its fiscal year ending May 31, 2019, through retrospective application to previous years' statements for comparative purposes. The impact of applying the ASU has not yet been determined.

Revenue Recognition

The FASB amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts,

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including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. NRCA is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. NRCA is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 13: Subsequent Events

Subsequent events have been evaluated through July 3, 2018, which is the date the financial statements were available to be issued.