

# National Roofing Contractors Association

**Independent Auditor's Report and Financial Statements**

**May 31, 2019 and 2018**

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**National Roofing Contractors Association**  
**May 31, 2019 and 2018**

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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, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses 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.

***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, 2019 and 2018, 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.

***Emphasis of Matter***

As described in Note 13 to the financial statements, in 2019, National Roofing Contractors Association adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

**BKD, LLP**

Oakbrook Terrace, Illinois  
July 2, 2019

**National Roofing Contractors Association**  
**Statements of Financial Position**  
**May 31, 2019 and 2018**

**Assets**

	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,590,600	\$ 3,243,193
Investments	15,557,102	15,791,203
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2019 and 2018	106,859	171,648
Inventories	507,372	288,792
Prepaid expenses	148,622	286,508
Due from related parties	<u>26,345</u>	<u>96,213</u>
Total current assets	<u>19,936,900</u>	<u>19,877,557</u>
<b>Property and Equipment</b>		
Land	71,143	71,143
Furniture and fixtures	256,162	249,462
Equipment	1,989,247	1,222,827
Leasehold improvements	347,625	347,625
Building and improvements	<u>472,446</u>	<u>472,446</u>
	3,136,623	2,363,503
Less accumulated depreciation and amortization	<u>(1,831,805)</u>	<u>(1,823,100)</u>
Total property and equipment	<u>1,304,818</u>	<u>540,403</u>
<b>Other Assets</b>		
Video and on-line production costs, net of accumulated amortization	26,766	57,337
Investment in NRSC	263,921	171,495
Deferred costs	737,228	266,308
Land available for sale	-	1,216,140
Other assets	<u>-</u>	<u>24,816</u>
Total other assets	<u>1,027,915</u>	<u>1,736,096</u>
Total assets	<u>\$ 22,269,633</u>	<u>\$ 22,154,056</u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable	\$ 189,828	\$ 475,417
Accrued payroll	284,263	513,277
Accrued expenses	1,329,625	989,324
Due to related parties	250,000	250,000
Unearned income (Note 4)	<u>5,138,849</u>	<u>787,055</u>
Total current liabilities	7,192,565	3,015,073
<b>Net Assets</b>	<u>15,077,068</u>	<u>19,138,983</u>
Total liabilities and net assets	<u>\$ 22,269,633</u>	<u>\$ 22,154,056</u>

**National Roofing Contractors Association**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended May 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Membership dues (Note 4)	\$ 3,538,542	\$ 7,439,442
Convention	161,643	142,142
Management fees, net	209,918	153,680
Royalty fees	823,729	616,805
Education conferences	1,713,397	1,309,357
Equity in net income of NRSC	92,426	171,495
Other income	412,794	193,520
Pac administration	192,067	180,650
Technical certifications	909,738	742,658
Other publications	826,918	703,198
	<u>8,881,172</u>	<u>11,652,947</u>
<b>Expenses</b>		
Program services	9,226,268	8,618,505
Management and general	3,767,901	3,267,294
	<u>12,994,169</u>	<u>11,885,799</u>
<b>Decrease in Net Assets Before</b>		
<b>Investment Activity</b>	<u>(4,112,997)</u>	<u>(232,852)</u>
<b>Investment Activity</b>		
Interest and dividend income	348,984	696,330
Management fees	(106,186)	(127,759)
Unrealized gain (loss) on investments	(440,712)	413,630
Realized gain on sale of investments	248,996	561,519
	<u>51,082</u>	<u>1,543,720</u>
<b>Increase (Decrease) in Net Assets</b>	(4,061,915)	1,310,868
<b>Net Assets, Beginning of Year</b>	<u>19,138,983</u>	<u>17,828,115</u>
<b>Net Assets, End of Year</b>	<u>\$ 15,077,068</u>	<u>\$ 19,138,983</u>

**National Roofing Contractors Association**  
**Statement of Functional Expenses**  
**Year Ended May 31, 2019**

	Programs					
	Meeting Services	Membership	Marketing	Print Production Magazine	Public Relations/ Web	International Relations
Salaries	\$ 110,589	\$ 495,149	\$ 240,044	\$ 692,184	\$ -	\$ 40,276
Payroll taxes	8,337	37,538	17,705	53,075	-	2,436
Professional fees	464	105,677	745	10,711	-	2,605
Officer and committees	91,798	537	-	-	366,011	6,545
Employee insurance	12,397	55,506	26,909	77,594	-	4,515
CGS	-	-	188,084	-	-	-
Equipment and supplies	-	-	-	23,956	-	-
Depreciation	-	-	36,329	3,248	-	-
Promotion and printing	3,045	161,553	93,466	251,855	-	-
General insurance	-	-	-	-	-	-
Shipping and postage	2,646	24,393	44,525	82,395	-	-
Telephone	-	-	-	-	-	-
General operations	807	1,243	1,311	2,469	-	-
Rent	-	-	-	-	-	-
Travel	11,179	41,733	6,193	20,585	-	10,783
Other program	275,442	25,096	133,966	4,150	-	1,159
NRSC reimbursement	-	-	-	-	-	-
Miscellaneous	8,374	172	20,559	1,176	-	20,290
<b>Total</b>	<b>\$ 525,078</b>	<b>\$ 948,597</b>	<b>\$ 809,836</b>	<b>\$ 1,223,398</b>	<b>\$ 366,011</b>	<b>\$ 88,609</b>

**Programs**

	<b>Risk Management</b>	<b>Education</b>	<b>Pro Certification</b>	<b>Technical Services</b>	<b>Government Relations</b>	<b>Total</b>	<b>Management and General</b>	<b>Total</b>
\$	319,964	\$ 415,582	\$ 879,421	\$ 615,388	\$ 414,569	\$ 4,223,166	\$ 1,735,049	\$ 5,958,215
	22,046	30,412	67,198	41,390	26,939	307,076	104,230	411,306
	28,367	4,783	3,383	85,538	85,214	327,487	374,822	702,309
	60	144,233	27,542	21,642	4,097	662,465	269,851	932,316
	35,868	46,587	98,583	68,985	46,473	473,416	194,499	667,915
	-	10,079	-	-	-	198,163	-	198,163
	-	-	10,718	-	-	34,674	191,065	225,739
	-	-	-	-	11,964	51,541	17,690	69,231
	-	436	71,075	-	-	581,430	56,495	637,925
	-	-	-	-	-	-	81,824	81,824
	81	8,353	185	2,717	3,233	168,528	39,980	208,508
	-	-	-	-	12,361	12,361	53,144	65,505
	42	1,063	530	636	27,892	35,993	74,325	110,318
	-	-	-	-	7,468	7,468	799,555	807,023
	13,928	13,407	38,800	76,897	25,199	258,704	124,744	383,448
	19,860	277,794	83,952	21,554	327,456	1,170,429	356,319	1,526,748
	-	-	-	-	-	-	(1,022,102)	(1,022,102)
	245	8,394	433	634,401	19,323	713,367	316,411	1,029,778
<b>\$</b>	<b>440,461</b>	<b>\$ 961,123</b>	<b>\$ 1,281,820</b>	<b>\$ 1,569,148</b>	<b>\$ 1,012,188</b>	<b>\$ 9,226,268</b>	<b>\$ 3,767,901</b>	<b>\$ 12,994,169</b>



**National Roofing Contractors Association**  
**Statement of Functional Expenses**  
**Year Ended May 31, 2018**

	<b>Programs</b>					
	<b>Meeting Services</b>	<b>Membership</b>	<b>Marketing</b>	<b>Print Production Magazine</b>	<b>Public Relations/ Web</b>	<b>International Relations</b>
Salaries	\$ 87,787	\$ 329,059	\$ 250,921	\$ 686,388	\$ -	\$ 22,067
Payroll taxes	6,414	24,876	17,802	51,333	-	1,524
Professional fees	1,718	31,854	35	26,277	-	5,535
Officer and committees	71,903	-	-	-	444,360	-
Employee insurance	8,772	32,882	25,074	68,588	-	2,205
CGS	-	-	196,496	-	-	-
Equipment and supplies	-	-	-	27,281	-	-
Depreciation	-	-	31,086	3,072	-	-
Promotion and printing	2,400	154,677	73,688	270,670	-	-
General insurance	-	-	-	-	-	-
Shipping and postage	2,707	69,755	37,667	102,780	-	-
Telephone	-	-	-	-	-	-
General operations	1,033	505	2,172	1,772	-	-
Rent	-	-	-	-	-	-
Travel	11,851	20,790	15,538	30,128	-	13,956
Other program	253,717	60,889	126,115	50,155	-	30,028
NRSC reimbursement	-	-	-	-	-	-
Miscellaneous	9,579	214	34,356	587	-	16,798
<b>Total</b>	<b>\$ 457,881</b>	<b>\$ 725,501</b>	<b>\$ 810,950</b>	<b>\$ 1,319,031</b>	<b>\$ 444,360</b>	<b>\$ 92,113</b>

**Programs**

	<b>Risk Management</b>	<b>Education</b>	<b>Pro Certification</b>	<b>Technical Services</b>	<b>Government Relations</b>	<b>Total</b>	<b>Management and General</b>	<b>Total</b>
\$	331,356	\$ 538,026	\$ 393,843	\$ 611,523	\$ 375,687	\$ 3,626,657	\$ 1,717,075	\$ 5,343,732
	24,157	37,501	31,507	41,831	24,510	261,455	87,622	349,077
	26,859	4,129	11,673	55,002	80,705	243,787	466,567	710,354
	6,036	102,916	31,651	7,774	1,724	666,364	287,028	953,392
	33,111	53,763	39,355	61,107	37,541	362,399	171,581	533,980
	-	17,195	-	-	-	213,691	-	213,691
	-	-	10,152	-	-	37,433	134,774	172,207
	-	-	-	-	11,964	46,122	26,893	73,015
	760	22,794	-	-	-	524,989	35,844	560,833
	-	-	-	-	-	-	82,473	82,473
	336	7,197	356	3,648	2,799	227,245	36,335	263,580
	-	-	-	4,473	13,465	17,938	44,224	62,162
	320	994	-	2,418	25,499	34,713	85,007	119,720
	-	-	-	-	6,974	6,974	794,175	801,149
	17,714	23,132	18,600	76,978	22,728	251,415	99,269	350,684
	35,530	293,313	27,968	145,487	422,933	1,446,135	59,590	1,505,725
	-	-	-	-	-	-	(1,232,613)	(1,232,613)
	2,182	9,651	598	553,196	24,027	651,188	371,450	1,022,638
<b>\$</b>	<b>478,361</b>	<b>\$ 1,110,611</b>	<b>\$ 565,703</b>	<b>\$ 1,563,437</b>	<b>\$ 1,050,556</b>	<b>\$ 8,618,505</b>	<b>\$ 3,267,294</b>	<b>\$ 11,885,799</b>

**National Roofing Contractors Association**  
**Statements of Cash Flows**  
**Years Ended May 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Increase (decrease) in net assets	\$ (4,061,915)	\$ 1,310,868
Items not requiring (providing) cash		
Depreciation and amortization	91,755	125,278
Equity in net income of NRSC	(92,426)	(171,495)
Realized gain on sale of investments	(248,996)	(561,519)
Unrealized (gain) loss on investments	440,712	(413,630)
Gain on sale of land	(187,207)	-
Changes in		
Accounts receivable	64,984	(42,793)
Due from related parties	69,868	168,911
Inventory	(218,580)	(80,108)
Prepaid expenses	137,886	(184,094)
Other assets	24,816	(24,816)
Accounts payable	(285,589)	256,083
Accrued payroll	(229,014)	329,030
Accrued expenses	340,301	(47,067)
Due to related parties	-	100,000
Unearned income	4,351,794	246,626
	<u>198,388</u>	<u>1,011,274</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Capital expenditures	(833,646)	(45,228)
Proceeds from sale of investments	13,710,589	5,978,021
Purchase of investments	(13,668,204)	(6,353,594)
Deferred costs	(470,920)	(189,669)
Sale proceeds from disposal of property and equipment	1,403,151	-
Video and on-line production costs	8,048	(6,589)
	<u>149,018</u>	<u>(617,059)</u>
Net cash provided by (used in) investing activities		
<b>Net Increase in Cash and Cash Equivalents</b>	347,407	394,215
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,243,193</u>	<u>2,848,978</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,590,600</u>	<u>\$ 3,243,193</u>

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2019 and 2018

### **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.

#### ***Investments and Net Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

#### ***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.

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2019 and 2018

### ***Inventories***

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.

### ***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 \$69,231 and \$73,015 for 2019 and 2018, 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 sold its vacant land in 2019. The land was reflected on the statement of financial position in the amount of \$1,216,140 as of May 31, 2018.

### ***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

**National Roofing Contractors Association**  
**Notes to Financial Statements**  
**May 31, 2019 and 2018**

amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended May 31, 2019 and 2018.

***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 \$22,524 and \$52,263 in 2019 and 2018, respectively. Accumulated amortization is \$826,279 and \$803,755 at May 31, 2019 and 2018, 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. NRCA files tax returns in the U.S. federal jurisdiction.

***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.

***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 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications had no effect on the prior year change in net assets without donor restrictions.

***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Donor-imposed restrictions are temporary in nature, such as those that will

**National Roofing Contractors Association**  
**Notes to Financial Statements**  
**May 31, 2019 and 2018**

be met by events specified by the donor. NRCA did not have net assets with donor restrictions as of May 31, 2019 and 2018.

***Functional Allocation of Expenses***

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 3: Inventories**

Inventories as of May 31, 2019 and 2018, consist of the following:

	<b>2019</b>	<b>2018</b>
Roofing manuals	\$ 162,131	\$ 50,387
Other manuals and publications	345,241	238,405
	\$ 507,372	\$ 288,792

**Note 4: Membership Dues Revenue**

NRCA has historically recognized membership dues revenue as earned upon receipt. Beginning January 1, 2018, new membership dues revenue is recognized as earned over the applicable membership period. Beginning June 1, 2018, all membership dues revenue is recognized as earned over the applicable membership period. Unearned income includes deferred membership dues revenue of approximately \$4,440,000 and \$139,000 as of May 31, 2019 and 2018, respectively.

**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, 2019 and 2018. There was no interest expense in 2019 and 2018 related to borrowings on the line of credit. Outstanding balances are due on the bank's demand.

**National Roofing Contractors Association**  
**Notes to Financial Statements**  
**May 31, 2019 and 2018**

**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 2019 and 2018 was \$356,319 and \$331,022, 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.

**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>2019</u>	<u>2018</u>
Reimbursed expenses		
Incurred by NRCA on behalf of NRSC	\$ 1,022,102	\$ 1,232,613
Incurred by NRSC on behalf of NRCA	128,132	96,087
Management fee income (expense)		
Paid to NRLRC	\$ -	\$ (51,500)
Paid by NRF	209,918	205,600



**National Roofing Contractors Association**  
**Notes to Financial Statements**  
**May 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Royalty fee income from NRSC	\$ 62,098	\$ 83,136
Due to related parties NRF	\$ (250,000)	\$ (250,000)
Due from related parties NRSC	\$ 26,345	\$ 96,213

**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.

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

<b>Year Ended May 31,</b>	<b>Minimum Rental Payment</b>
2020	\$ 444,349
2021	459,639
2022	471,092
2023	482,546
2024	493,998
Thereafter	421,050
	<b>\$ 2,772,673</b>

Rent expense, including real estate taxes and operating expenses, was \$787,972 and \$782,610 for the years ended May 31, 2019 and 2018, 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, 2019, NRCA's cash and cash equivalents and investments exceeded the amount guaranteed by the FDIC or the SIPC, by approximately \$18,317,000.

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2019 and 2018

### 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

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. There has been no change in the methodologies used at May 31, 2019 or 2018.

Fair values of assets measured on a recurring basis at May 31, 2019 and 2018, are as follows:

	<b>Fair Value Measurements at Reporting Date Using</b>		
	<b>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
May 31, 2019			
Equity securities			
Large cap growth	\$ 2,862,544	\$ 2,862,544	\$ -
Large cap value	2,065,991	2,065,991	-
Small/mid cap growth	2,067,517	2,067,517	-
Small/mid cap value	1,271,632	1,271,632	-
International equity	1,797,542	1,797,542	-
Equities blend	1,186,841	1,186,841	-
Fixed income securities			
Negotiable certificates of deposit	4,305,035	-	4,305,035
Total	<u>\$ 15,557,102</u>	<u>\$ 11,252,067</u>	<u>\$ 4,305,035</u>

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## Notes to Financial Statements

May 31, 2019 and 2018

	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				
Equity securities				
Large cap growth	\$ 2,706,610	\$ 2,706,610	\$ -	\$ -
Large cap value	1,984,138	1,984,138	-	-
Small/mid cap growth	1,992,740	1,992,740	-	-
Small/mid cap value	1,000,677	1,000,677	-	-
International equity	2,539,474	2,539,474	-	-
Equities blend	1,389,219	1,389,219	-	-
Fixed income securities				
Government agency securities	4,178,345	-	4,178,345	-
Total	\$ 15,791,203	\$ 11,612,858	\$ 4,178,345	\$ -

### Note 11: Investment in NRSC

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

	2019	2018
Current assets	\$ 640,491	\$ 511,890
Noncurrent assets	-	17,188
Total assets	\$ 640,491	\$ 529,078
Liabilities	\$ 112,650	\$ 186,089
Equity	527,841	342,989
Total liabilities and equity	\$ 640,491	\$ 529,078
Net sales	\$ 1,370,091	\$ 1,758,805
Net income	\$ 184,852	\$ 284,494

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**Notes to Financial Statements**  
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**Note 12: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 3,590,600
Investments	15,557,102
Accounts receivable	<u>133,204</u>
	<u>\$ 19,280,906</u>

As part of NRCA’s liquidity management plan, cash in excess of daily requirements is invested in short-term investments including, but not limited to, stocks and bonds and mutual funds.

**Note 13: Change in Accounting Principle**

In 2018, NRCA adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

***Statement of Financial Position***

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

***Statement of Activities***

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

***Notes to the Financial Statements***

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.
- Amounts and purposes of board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

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**Note 14: Future Changes in Accounting Principles**

***Revenue Recognition***

The Financial Accounting Standards Board (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, 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 15: Subsequent Events**

Subsequent events have been evaluated through July 2, 2019, which is the date the financial statements were available to be issued.