

# **National Roofing Contractors Association**

Independent Auditor's Report and Financial Statements

May 31, 2020 and 2019



# **National Roofing Contractors Association**

## **May 31, 2020 and 2019**

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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, 2020 and 2019, 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.

Board of Directors  
National Roofing Contractors Association  
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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, 2020 and 2019, 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 17, 2020

# National Roofing Contractors Association

## Statements of Financial Position

May 31, 2020 and 2019

### Assets

	2020	2019
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,547,980	\$ 3,590,600
Investments	17,538,725	15,557,102
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2020 and 2019	20,766	106,859
Inventories	522,668	507,372
Prepaid expenses	94,354	148,622
Due from related parties	-	26,345
Total current assets	<u>19,724,493</u>	<u>19,936,900</u>
<b>Property and Equipment</b>		
Land	71,143	71,143
Furniture and fixtures	256,162	256,162
Equipment	2,773,636	1,989,247
Leasehold improvements	347,625	347,625
Building and improvements	<u>472,446</u>	<u>472,446</u>
	3,921,012	3,136,623
Less accumulated depreciation and amortization	<u>(2,132,105)</u>	<u>(1,831,805)</u>
Total property and equipment	<u>1,788,907</u>	<u>1,304,818</u>
<b>Other Assets</b>		
Video and on-line production costs, net of accumulated amortization	13,383	26,766
ProCert and TRAC development costs, net of accumulated amortization	776,234	737,228
Investment in NRSC	360,956	263,921
Deferred costs	<u>16,920</u>	<u>-</u>
Total other assets	<u>1,167,493</u>	<u>1,027,915</u>
Total assets	<u><u>\$ 22,680,893</u></u>	<u><u>\$ 22,269,633</u></u>

### Liabilities and Net Assets

<b>Current Liabilities</b>		
Accounts payable	\$ 126,151	\$ 189,828
Accrued payroll	-	284,263
Accrued expenses	991,765	1,329,625
Due to related parties	724,556	250,000
Unearned income	<u>4,354,711</u>	<u>5,138,849</u>
Total current liabilities	6,197,183	7,192,565
<b>Net Assets</b>	<u>16,483,710</u>	<u>15,077,068</u>
Total liabilities and net assets	<u><u>\$ 22,680,893</u></u>	<u><u>\$ 22,269,633</u></u>

**National Roofing Contractors Association**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended May 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Revenues</b>		
Membership dues	\$ 8,379,583	\$ 3,538,542
Convention	189,062	161,643
Management fees, net	383,771	209,918
Royalty fees	605,470	823,729
Education conferences	1,608,969	1,713,397
Equity in net income of NRSC	97,035	92,426
In-kind contributions	328,857	-
Other income	50,004	412,794
Pac administration	220,998	192,067
Technical certifications	899,788	909,738
Other publications	607,894	826,918
	<u>13,371,431</u>	<u>8,881,172</u>
<b>Expenses</b>		
Program services	8,793,355	9,226,268
Management and general	4,631,507	3,767,901
	<u>13,424,862</u>	<u>12,994,169</u>
<b>Decrease in Net Assets Before Investment Activity</b>	<u>(53,431)</u>	<u>(4,112,997)</u>
<b>Investment Activity</b>		
Interest and dividend income	360,582	348,984
Management fees	(91,841)	(106,186)
Unrealized gain (loss) on investments	1,219,711	(440,712)
Realized gain (loss) on sale of investments	(28,379)	248,996
	<u>1,460,073</u>	<u>51,082</u>
<b>Increase (Decrease) in Net Assets</b>	1,406,642	(4,061,915)
<b>Net Assets, Beginning of Year</b>	<u>15,077,068</u>	<u>19,138,983</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 16,483,710</u></u>	<u><u>\$ 15,077,068</u></u>

**National Roofing Contractors Association**  
**Statement of Functional Expenses**  
**Year Ended May 31, 2020**

	Programs					
	Meeting Services	Membership	Marketing	Print Production Magazine	Public Relations/ Web	International Relations
Salaries	\$ 118,893	\$ 490,755	\$ 213,491	\$ 683,809	\$ -	\$ 32,473
Payroll taxes	8,953	37,668	15,968	52,159	-	2,285
Professional fees	680	13,165	121	7,592	-	2,576
Officer and committees	82,771	-	-	-	379,273	3,115
Employee insurance	13,226	54,594	23,750	76,071	-	3,612
CGS	-	-	135,292	-	-	-
Equipment and supplies	-	-	-	6,547	-	-
Depreciation	-	-	31,086	2,185	-	-
Promotion and printing	1,850	154,750	60,336	185,915	36,063	-
General insurance	-	-	-	-	-	-
Shipping and postage	1,174	14,964	30,736	85,373	-	-
Telephone	-	-	-	-	-	-
General operations	1,501	496	691	1,434	-	-
Rent	-	-	-	-	-	-
Travel	5,886	35,055	4,674	16,895	-	12,862
Other program	277,754	18,731	122,187	4,653	-	956
NRSC reimbursement	-	-	-	-	-	-
Miscellaneous	11,401	404	9,935	29	-	30,855
Total	<u>\$ 524,089</u>	<u>\$ 820,582</u>	<u>\$ 648,267</u>	<u>\$ 1,122,662</u>	<u>\$ 415,336</u>	<u>\$ 88,734</u>

Programs								
Risk Management	Education	Pro Certification	Technical Services	Government Relations	Total	Management and General	Total	
\$ 304,138	\$ 905,855	\$ 432,921	\$ 673,824	\$ 426,656	\$ 4,282,815	\$ 1,860,555	\$ 6,143,370	
20,545	67,904	32,307	45,823	30,500	314,112	99,302	413,414	
8,862	3,821	5,394	97,805	63,211	203,227	837,936	1,041,163	
12,572	71,587	6,669	26,284	837	583,108	222,746	805,854	
33,834	100,772	48,161	74,960	47,464	476,444	206,979	683,423	
-	-	-	-	-	135,292	-	135,292	
-	1,087	4,018	-	-	11,652	282,208	293,860	
-	-	-	-	11,964	45,235	255,063	300,298	
530	21,167	76,609	-	1,444	538,664	30,901	569,565	
-	-	-	-	-	-	91,164	91,164	
68	5,156	436	3,613	3,084	144,604	34,671	179,275	
-	-	-	131	12,190	12,321	66,249	78,570	
-	1,004	68	2,835	27,098	35,127	34,242	69,369	
-	-	-	-	4,939	4,939	732,576	737,515	
8,859	9,507	30,987	57,807	18,031	200,563	110,075	310,638	
4,502	272,422	188,706	11,434	157,191	1,058,536	416,964	1,475,500	
-	-	-	-	-	-	(971,119)	(971,119)	
581	13,851	2,577	661,342	15,741	746,716	320,995	1,067,711	
<u>\$ 394,491</u>	<u>\$ 1,474,133</u>	<u>\$ 828,853</u>	<u>\$ 1,655,858</u>	<u>\$ 820,350</u>	<u>\$ 8,793,355</u>	<u>\$ 4,631,507</u>	<u>\$ 13,424,862</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
Total	<u>\$ 525,078</u>	<u>\$ 948,597</u>	<u>\$ 809,836</u>	<u>\$ 1,223,398</u>	<u>\$ 366,011</u>	<u>\$ 88,609</u>

Programs								
Risk Management	Education	Pro Certification	Technical Services	Government Relations	Total	Management and General	Total	
\$ 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	
<u>\$ 440,461</u>	<u>\$ 961,123</u>	<u>\$ 1,281,820</u>	<u>\$ 1,569,148</u>	<u>\$ 1,012,188</u>	<u>\$ 9,226,268</u>	<u>\$ 3,767,901</u>	<u>\$ 12,994,169</u>	

# National Roofing Contractors Association

## Statements of Cash Flows

Years Ended May 31, 2020 and 2019

	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Increase (decrease) in net assets	\$ 1,406,642	\$ (4,061,915)
Items not requiring (providing) cash		
Depreciation and amortization	493,099	111,695
Equity in net income of NRSC	(97,035)	(92,426)
Realized gain (loss) on sale of investments	28,379	(248,997)
Unrealized (gain) loss on investments	(1,219,711)	440,713
Gain on sale of land	-	(187,207)
Changes in		
Accounts receivable	86,093	64,984
Due from related parties	26,345	69,868
Inventory	(15,296)	(218,580)
Prepaid expenses	54,268	137,886
Other assets	-	24,816
Accounts payable	(63,677)	(285,589)
Accrued payroll	(284,263)	(229,014)
Accrued expenses	(305,230)	360,712
Due to related parties	474,556	-
Unearned income	(784,138)	4,351,794
	<u>(199,968)</u>	<u>238,739</u>
Net cash provided by (used in) operating activities		
	<u>(199,968)</u>	<u>238,739</u>
<b>Investing Activities</b>		
Capital expenditures	(784,389)	(833,646)
Proceeds from sale of investments	5,380,029	13,710,589
Purchase of investments	(6,170,320)	(13,668,204)
Deferred costs	(16,920)	(511,271)
Sale proceeds from disposal of property and equipment	-	1,403,151
Video and on-line production costs	-	8,048
ProCert and TRAC development costs	(251,052)	-
	<u>(1,842,652)</u>	<u>108,667</u>
Net cash provided by (used in) investing activities		
	<u>(1,842,652)</u>	<u>108,667</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(2,042,620)	347,407
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,590,600</u>	<u>3,243,193</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,547,980</u></u>	<u><u>\$ 3,590,600</u></u>

# **National Roofing Contractors Association**

## **Notes to Financial Statements**

**May 31, 2020 and 2019**

### **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, 2020 and 2019

### ***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 \$300,300 and \$69,231 for 2020 and 2019, 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.

### ***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, 2020 and 2019.

# **National Roofing Contractors Association**

## **Notes to Financial Statements**

**May 31, 2020 and 2019**

### ***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 \$13,383 and \$22,524 in 2020 and 2019, respectively. Accumulated amortization is \$839,662 and \$826,279 at May 31, 2020 and 2019, respectively.

### ***ProCert and TRAC Development Costs***

NRCA has capitalized certain costs pertaining to two certification programs that were implemented during the year ended May 31, 2020. ProCert and TRAC development costs are amortized based upon estimated sales over a five-year period. Amortization expense was \$212,046 and \$40,351 in 2020 and 2019, respectively. Accumulated amortization is \$252,397 and \$40,351 at May 31, 2020 and 2019, 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.

Uninvested cash and cash equivalents included in investment accounts are considered to be cash and cash equivalents.

### ***Net Assets***

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

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2020 and 2019

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 be met by events specified by the donor. NRCA did not have net assets with donor restrictions as of May 31, 2020 and 2019.

### **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.

### **Donated Volunteer Services**

Contributions in-kind are recognized in accordance with the provisions of FASB ASC 958-605-25, *Not-for-Profit Entities Revenue Recognition Contributions Received*. Donated volunteer services that require a specialized skill and that the Organization would have paid for if not donated are recorded at the estimated fair value at the time the services are rendered.

### **Reclassifications**

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on change in net assets.

### **Note 3: Inventories**

Inventories as of May 31, 2020 and 2019, consist of the following:

	2020	2019
Roofing manuals	\$ 97,435	\$ 162,131
Other manuals and publications	425,233	345,241
	<u>\$ 522,668</u>	<u>\$ 507,372</u>

### **Note 4: Membership Dues Revenue**

Membership dues revenue is recognized as earned over the applicable membership period. Unearned income includes deferred membership dues revenue of approximately \$3,600,000 and \$4,440,000 as of May 31, 2020 and 2019, respectively.

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2020 and 2019

### 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, 2020 and 2019. There was no interest expense in 2020 and 2019 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 6.5% in 2020 and 6% in 2019 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 2020 and 2019 was \$416,964 and \$356,319, 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:

	2020	2019
Reimbursed expenses		
Incurred by NRCA on behalf of NRSC	\$ 971,119	\$ 1,022,102
Incurred by NRSC on behalf of NRCA	130,051	128,132



# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Management fee income (expense)		
Paid by NRLRC	\$ 170,705	\$ -
Paid by NRF	213,066	209,918
Royalty fee income from NRSC	\$ 59,793	\$ 62,098
Due to related parties		
NRF	\$ (230,888)	\$ (250,000)
NRSC	(493,668)	-
Due from related parties		
NRSC	\$ -	\$ 26,345

### 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:

<u>Year Ended May 31,</u>	<u>Minimum Rental Payment</u>
2021	\$ 459,639
2022	471,092
2023	482,545
2024	493,998
2025	421,050
	<u>\$ 2,328,322</u>

Rent expense, including real estate taxes and operating expenses, was \$721,975 and \$787,972 for the years ended May 31, 2020 and 2019, respectively.

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2020 and 2019

### **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, 2020, NRCA's cash and cash equivalents and investments exceeded the amount guaranteed by the FDIC or the SIPC by approximately \$18,125,000.

### **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

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, 2020 or 2019.

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2020 and 2019

Fair values of assets measured on a recurring basis at May 31, 2020 and 2019, are as follows:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value		
May 31, 2020				
Equity securities				
Large cap growth	\$ 3,940,900	\$ 3,940,900	\$ -	\$ -
Large cap value	2,202,957	2,202,957	-	-
Small/mid cap growth	1,817,170	1,817,170	-	-
Small/mid cap value	1,195,437	1,195,437	-	-
International equity	1,911,935	1,911,935	-	-
Equities blend	1,561,568	1,561,568	-	-
Fixed income securities				
Negotiable certificates of deposit	4,908,758	-	4,908,758	-
Total	<u>\$ 17,538,725</u>	<u>\$ 12,629,967</u>	<u>\$ 4,908,758</u>	<u>\$ -</u>
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				
Government agency securities	4,305,035	-	4,305,035	-
Total	<u>\$ 15,557,102</u>	<u>\$ 11,252,067</u>	<u>\$ 4,305,035</u>	<u>\$ -</u>

### Note 11: Investment in NRSC

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

	2020	2019
Current assets	<u>\$ 790,178</u>	<u>\$ 640,491</u>

# National Roofing Contractors Association

## Notes to Financial Statements

May 31, 2020 and 2019

	2020	2019
Liabilities	\$ 68,268	\$ 112,650
Equity	721,910	527,841
Total liabilities and equity	<u>\$ 790,178</u>	<u>\$ 640,491</u>
Net sales	<u>\$ 1,325,918</u>	<u>\$ 1,370,091</u>
Net income	<u>\$ 194,069</u>	<u>\$ 184,852</u>

### 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:

	2020	2019
Cash and cash equivalents	\$ 1,547,980	\$ 3,590,600
Investments	17,538,725	15,557,102
Accounts receivable	20,766	133,204
	<u>\$ 19,107,471</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: Revision of the 2019 Financial Statements

The Association revised the 2019 financial statements for an error in the previously reported statement of cash flows. The following 2019 financial statement line items were affected by this revision as well as an immaterial reclassification:

	As Revised	As Previously Reported	Effect of Revision
<b>Statement of Cash Flows</b>			
Depreciation and amortization	\$ 111,695	\$ 91,755	\$ 19,940
Accrued expenses	360,712	340,301	20,411
Net cash provided by operating activities	238,739	198,388	40,351
Change in deferred costs	(511,271)	(470,920)	(40,351)
Net cash provided by investing activities	108,667	149,018	(40,351)

# **National Roofing Contractors Association**

## **Notes to Financial Statements**

**May 31, 2020 and 2019**

### **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, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. 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, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. 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**

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of NRCA. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

# **National Roofing Contractors Association**

## **Notes to Financial Statements**

**May 31, 2020 and 2019**

Subsequent events have been evaluated through July 17, 2020, which is the date the financial statements were available to be issued.