

**National Roofing
Contractors Association**

**Financial Statements
and
Independent Auditor's Report
For the Year Ended
May 31, 2008**

Wolf & Company LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
National Roofing Contractors
Association
Rosemont, Illinois

We have audited the accompanying statements of financial position of NATIONAL ROOFING CONTRACTORS ASSOCIATION as of May 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Oak Brook, Illinois
June 27, 2008

Wolf & Company LLP

NATIONAL ROOFING CONTRACTORS ASSOCIATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	May 31,	
	2008	2007
Current assets:		
Cash	\$ 1,033,740	\$ 2,273,112
Investments	14,973,602	14,147,257
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2008 and 2007	120,462	209,661
Inventory	646,562	530,256
Prepaid expenses	155,252	99,004
Due from related parties	1,405,228	1,138,977
Total current assets	18,334,846	18,398,267
Property and equipment:		
Land	1,687,282	1,687,282
Furniture and fixtures	596,690	563,982
Equipment	2,059,978	1,613,809
Leasehold improvements	347,625	339,318
Building	472,446	472,446
	5,164,021	4,676,837
Less accumulated depreciation	(2,384,455)	(2,147,787)
	2,779,566	2,529,050
Other assets:		
Video production costs, net of accumulated amortization	201,783	81,168
Deposits	2,600	7,995
	204,383	89,163
Total assets	\$21,318,795	\$21,016,480

LIABILITIES AND NET ASSETS

Current liabilities:		
Line of credit	\$ 1,600,000	\$ -
Accounts payable	177,142	192,412
Accrued expenses:		
Payroll	-	166,554
Other	403,623	364,815
Unearned income	62,530	50,213
Total current liabilities	2,243,295	773,994
Unrestricted net assets	19,075,500	20,242,486
Total liabilities and net assets	\$21,318,795	\$21,016,480

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

NATIONAL ROOFING CONTRACTORS ASSOCIATION
STATEMENTS OF ACTIVITIES

	For the Year Ended May 31,	
	2008	2007
Unrestricted net assets:		
Revenue:		
Membership	\$ 5,426,720	\$ 5,221,846
Convention	137,785	138,163
Management fees	394,041	270,000
Royalty fees	870,229	979,925
Education conferences	945,823	878,118
OSHA grant	265,202	442,164
Interest and dividend income	401,740	427,639
Unrealized gain (loss) on investments	(754,043)	1,299,764
Realized gain on sale of investments	1,175,172	352,931
Other income	275,270	442,653
Public relations	-	1,600
Roofing manual	346,953	444,166
Audiovisuals	189,297	228,474
Other service center sales	360,830	294,255
Energy awareness campaign	31,087	103,000
	<u>10,066,106</u>	<u>11,524,698</u>
Total revenues		
Expenses:		
Program:		
Membership development	959,095	860,754
Education conferences	1,622,247	1,290,436
OSHA grant	172,887	278,858
Technical research	1,174,797	905,083
Risk management	504,661	770,928
Public relations and web site	288,021	259,812
International services	199,939	180,199
Service center and audiovisuals	1,044,214	996,149
Magazine and other publications	1,733,416	1,666,215
Computer	634,437	766,510
Meeting services	625,111	533,440
Retirement program	18,053	27,827
Government relations	868,539	800,264
NRSC reimbursement	(1,953,362)	(1,848,263)
Support:		
General operations	3,338,436	3,183,315
	<u>11,230,491</u>	<u>10,671,527</u>
Total expenses		

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

NATIONAL ROOFING CONTRACTORS ASSOCIATION
STATEMENTS OF ACTIVITIES

	For the Year Ended	
	May 31,	
	<u>2008</u>	<u>2007</u>
Increase (decrease) in unrestricted net assets before income taxes	(1,164,385)	853,171
Income tax expense	<u>2,601</u>	<u>515</u>
Increase (decrease) in unrestricted net assets	(1,166,986)	852,656
Net assets, beginning of year	<u>20,242,486</u>	<u>19,389,830</u>
Net assets, end of year	<u>\$ 19,075,500</u>	<u>\$ 20,242,486</u>

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

NATIONAL ROOFING CONTRACTORS ASSOCIATION
STATEMENTS OF CASH FLOWS

	For the Year Ended May 31,	
	2008	2007
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	\$ (1,166,986)	\$ 852,656
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	242,017	348,010
Gain on sale of investments	(1,175,172)	(352,931)
Unrealized gain (loss) on investments	754,043	(1,299,764)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	89,199	(41,731)
Due from related parties	(266,251)	(104,122)
Inventory	(116,306)	(25,790)
Prepaid expenses	(56,248)	19,765
Deposits	5,395	(4,970)
Deferred income taxes	-	515
Increase (decrease) in:		
Accounts payable	(15,270)	(432,882)
Accrued payroll	(166,554)	35,378
Accrued other	38,808	42,039
Unearned income	12,317	29,038
Net cash used in operating activities	(1,821,008)	(934,789)
Cash flows from investing activities:		
Capital expenditures	(487,184)	(191,919)
Proceeds from sale of investments	21,659,540	17,267,268
Purchase of investments	(22,064,756)	(15,470,196)
Video production costs incurred	(125,964)	(48,000)
Net cash provided by (used in) investing activities	(1,018,364)	1,557,153
Cash provided by financing activities:		
Net borrowings under line of credit	1,600,000	-
Net increase (decrease) in cash	(1,239,372)	622,364
Cash:		
Beginning of year	2,273,112	1,650,748
End of year	\$ 1,033,740	\$ 2,273,112
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest	\$ 3,522	\$ -

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

NATIONAL ROOFING CONTRACTORS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization

National Roofing Contractors Association (“NRCA”) is a non-profit 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.

During the 2004 fiscal year, NRCA sold its annual trade show rights. Beginning in the 2006 fiscal year, NRCA receives royalty fees based on trade show revenue in accordance with the terms of the sale agreement. NRCA recognized royalty fees of \$91,655 and \$88,013 in 2008 and 2007, respectively.

2. Summary of Significant Accounting Policies

Accounting Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, NRCA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Investments – NRCA has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

NATIONAL ROOFING CONTRACTORS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Cont.)

Investment in NRSC – 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 (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 equaled the carrying amount of the investment. NRCA’s share of the losses for the years ended May 31, 2008 and 2007 was \$99,271 and \$23,749, respectively, none of which were charged to operations. The accumulated unrecognized loss as of May 31, 2008 and 2007 was \$360,861 and \$261,590, respectively.

Inventory – Inventory is stated at the lower of cost (first-in, first-out) or market.

Property and Equipment – Property and equipment are carried at cost. Depreciation is provided on both the straight-line and the accelerated methods over the following estimated useful lives:

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

Depreciation expense was \$236,668 and \$338,047 for 2008 and 2007, 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.

Video 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 is \$5,349 and \$9,963 in 2008 and 2007, 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 retirement plan sponsorships and website development. NRCA is taxed at regular corporate rates on such income.

Statement of Cash Flows – For purposes of these financial statements, NRCA considers cash to be highly liquid deposits with no maturity dates. Investments in certificates of deposit and other short-term investments are reflected in investments.

NATIONAL ROOFING CONTRACTORS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. Investments

Investments, which are stated at fair value, and unrealized gains and losses are summarized as follows:

	2008		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 5,946,711	\$ 7,829,601	\$ 1,882,890
Fixed income securities:			
Government obligations	1,885,454	1,884,375	(1,079)
Non-government obligations	3,529,304	3,566,705	37,401
Other securities	1,545,000	1,692,921	147,921
	\$ 12,906,469	\$ 14,973,602	\$ 2,067,133
	2007		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 5,724,320	\$ 8,080,581	\$ 2,356,261
Fixed income securities:			
Government obligations	1,903,888	1,834,672	(69,216)
Non-government obligations	2,152,872	2,315,551	162,679
Other securities	1,545,000	1,916,453	371,453
	\$ 11,326,080	\$ 14,147,257	\$ 2,821,177

NRCA's investment in other securities represents a "managed futures" hedge fund. The purpose of this hedge fund is to offer diverse investment opportunities to minimize the portfolio's volatility risk.

4. Inventory

Inventory consists of the following:

	2008	2007
Roofing manuals	\$ 315,030	\$ 170,644
Other manuals and publications	331,532	359,612
	\$ 646,562	\$ 530,256

NATIONAL ROOFING CONTRACTORS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

5. Line of Credit

NRCA entered into a \$3,000,000 revolving line of credit agreement with a commercial bank on February 25, 2008. Borrowings bear interest at LIBOR plus one percent with the agreement expiring January 31, 2009. The note is secured by investments held. The outstanding balance on the line of credit as of May 31, 2008 was \$1,600,000. In 2008, \$3,522 was charged to interest expense related to borrowings on the line of credit. There was no line of credit or interest expense in 2007.

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 employer contributions to be equal to 9.75% 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 2008 and 2007 was \$435,255 and \$359,746, 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.

7. Executive Welfare Benefit Plan

During fiscal year 1994, NRCA established a welfare benefit plan for select employees. Under the plan, the employer will contribute a discretionary percentage of annual gross wages. There were no employer contributions in 2008. In 2007, the employer contribution percentage was 4.0%, which amounted to a deferred compensation expense of \$47,420.

In addition to the executive welfare benefit plan described above, on June 1, 1996, NRCA established an irrevocable grantor trust of which NRCA is the grantor. The trust is established for the benefit of the NRCA executive employee. NRCA deposited a total of \$16,000 and \$15,000 in 2008 and 2007, respectively. The trust is subject to claims of NRCA's creditors until the benefit is paid to the employee.

8. 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.

NATIONAL ROOFING CONTRACTORS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

8. Related Party Transactions (Cont.)

NRCA shares facilities and incurs expenses on behalf of NRF and NRSC. NRCA receives a management fee from NRLRC, NRF, and the Center for Environmental Innovation in Roofing (the "Center"), a related not-for-profit entity. 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>2008</u>	<u>2007</u>
Fundraising and other administrative costs paid by NRCA on behalf of NRF	\$ 17,013	\$ 17,810
Scholarship contributions paid to NRF	6,500	1,500
Reimbursed expenses:		
Incurred by NRCA on behalf of NRSC	1,953,362	1,848,263
Incurred by NRSC on behalf of NRCA	131,436	114,957
Management fee income:		
Paid by NRLRC	55,000	55,000
Paid by NRF	170,000	160,000
Paid by the Center	96,541	-
Royalty fee income from NRSC	177,634	188,893

9. Income Taxes

Income tax expense consists of the following:

	<u>2008</u>	<u>2007</u>
Current:		
Federal	\$ 1,663	\$ 335
State	<u>938</u>	<u>180</u>
	<u>\$ 2,601</u>	<u>\$ 515</u>
Deferred:		
Federal	\$ -	\$ 335
State	<u>-</u>	<u>180</u>
	<u>\$ -</u>	<u>\$ 515</u>

NRCA accounts for income taxes under the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

NATIONAL ROOFING CONTRACTORS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

10. Operating Lease

NRCA has an operating lease for its primary office facilities. The lease commenced on June 15, 1990 and continues through March 31, 2015. NRCA is generally responsible for real estate taxes and other operating expenses.

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

<u>Year Ended</u> <u>May 31,</u>	
2009	\$ 358,084
2010	376,765
2011	388,218
2012	399,671
2013	411,124
Thereafter	<u>783,934</u>
	<u>\$ 2,717,796</u>

Rent expense, including real estate taxes and operating expense, was \$714,465 and \$701,811 for the years ended May 31, 2008 and 2007, respectively.

11. Concentration of Risk

During 2008 and 2007, NRCA maintained bank and money market accounts that exceeded the federally insured limit of \$100,000.

12. Fair Values of Financial Instruments

NRCA estimates that the fair value of all financial instruments at May 31, 2008 and 2007 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statements of financial position. The estimated fair value amounts have been determined by using readily available quoted market prices.