



Audited Financial Statements

2016

National Council of Architectural Registration Boards

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Audited Financial Statements
**NATIONAL COUNCIL OF ARCHITECTURAL
REGISTRATION BOARDS**

June 30, 2016

National Council of Architectural Registration Boards

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T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Financial Statements

To the Board of Directors
National Council of Architectural Registration Boards

We have audited the accompanying financial statements of National Council of Architectural Registration Boards (the Council), which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities, cash flows and functional expenses 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Council'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 Council'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 Council of Architectural Registration Boards as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, DC
September 6, 2016

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National Council of Architectural Registration Boards

Statements of Financial Position

<i>June 30,</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 3,092,426	\$ 3,181,047
Investments	18,609,678	15,347,705
Accounts receivable, net	283,625	397,258
Prepaid expenses and other assets	448,243	546,376
Investments - deferred compensation	690,233	644,008
Property, equipment, and capitalized software, net	5,187,904	4,436,152
Total assets	\$ 28,312,109	\$ 24,552,546
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,567,902	\$ 1,480,081
Accrued payroll and related liabilities	1,176,798	1,434,930
Deferred revenue	1,138,788	1,234,402
Deferred rent and lease incentive	1,605,566	1,836,638
Deferred compensation	690,233	644,008
Total liabilities	6,179,287	6,630,059
Net assets - unrestricted		
Council's net assets	21,614,249	17,412,508
Regional conferences' net assets	518,573	509,979
Total net assets	22,132,822	17,922,487
Commitments	-	-
Total liabilities and net assets	\$ 28,312,109	\$ 24,552,546

See notes to the financial statements.

National Council of Architectural Registration Boards

Statements of Activities

<i>Year Ended June 30,</i>	2016	2015
Revenue		
Customer relations income	\$ 19,640,108	\$ 18,884,228
Examination income	8,115,030	7,514,495
Member board dues	351,000	351,000
Investment income	459,642	268,275
Education income	271,775	257,750
Annual meetings, regional activities, and other income	76,551	125,028
Total revenue	28,914,106	27,400,776
Expenses		
Program services		
Member Board Services	4,441,377	4,596,513
Examination Directorate	4,401,334	4,507,207
Information Systems Directorate	4,137,958	4,083,226
Customer Relations Directorate	3,533,753	3,413,461
I + E Directorate	1,758,266	1,858,772
Marketing & Communications Directorate	1,596,481	1,364,417
Total program expenses	19,869,169	19,823,596
Supporting services		
Administration Directorate	2,635,196	2,412,154
Executive Office	2,083,393	1,780,490
Total supporting expenses	4,718,589	4,192,644
Total expenses	24,587,758	24,016,240
Change in net assets before change in fair value		
of investments and monograph inventory write off	4,326,348	3,384,536
Realized and unrealized loss on investments	(116,013)	(567,526)
Monograph inventory write-off	-	(432,254)
Change in net assets	4,210,335	2,384,756
Net assets, beginning of year	17,922,487	15,537,731
Net assets, end of year	\$ 22,132,822	\$ 17,922,487

See notes to the financial statements.

National Council of Architectural Registration Boards

Statements of Cash Flows

<i>Year Ended June 30,</i>	2016	2015
Cash flows from operating activities		
Cash received from:		
Customer relations income	\$ 19,450,367	\$ 18,955,153
Examination income	8,307,127	7,442,950
Education income	271,640	257,751
Member board dues	369,400	494,000
Annual meetings, regional activities, and other income	76,234	118,968
Total cash received	28,474,768	27,268,822
Cash paid for:		
Employment/human resource expenses	(11,076,467)	(10,163,163)
Operating expenses	(4,830,045)	(4,822,056)
Contributions	(598,110)	(525,459)
Consulting	(3,070,262)	(3,077,773)
Travel/other meeting expenses	(4,136,412)	(4,054,916)
Total cash paid	(23,711,296)	(22,643,367)
Net cash provided by operating activities	4,763,472	4,625,455
Cash flows from investing activities		
Cash paid for:		
Transfers into investments	(3,000,003)	(3,525,304)
Capital expenditures	(1,852,090)	(879,070)
Net cash used in investing activities	(4,852,093)	(4,404,374)
Net (decrease) increase in cash and cash equivalents	(88,621)	221,081
Cash and cash equivalents, beginning of year	3,181,047	2,959,966
Cash and cash equivalents, end of year	\$ 3,092,426	\$ 3,181,047

See notes to the financial statements.

National Council of Architectural Registration Boards

Statements of Functional Expenses

	Year ended June 30, 2016										
	Program Services						Supporting Services			Total	
	Member Board Services	Examination Directorate	Information Systems Directorate	Customer Relations Directorate	I + E Directorate	Marketing & Communications Directorate	Total Program Expenses	Administration Directorate	Executive Office	Total Supporting Expenses	2016
Expenses:											
Employment/human resources	\$ 616,958	\$ 769,813	\$ 1,959,434	\$ 2,366,012	\$ 773,337	\$ 1,240,672	\$ 7,726,226	\$ 2,037,821	\$ 1,054,781	\$ 3,092,602	\$ 10,818,828
Operating expenses	1,231,296	500,488	2,117,103	1,070,912	211,270	222,607	5,353,676	436,368	82,927	519,295	5,872,971
Consulting	142,105	2,557,035	11,134	15,523	43,253	119,247	2,888,297	141,795	121,830	263,625	3,151,922
Travel	990,613	384,579	44,471	56,611	444,537	11,273	1,932,084	10,082	637,050	647,132	2,579,216
Other meeting expenses	837,036	188,973	4,860	23,198	186,167	2,576	1,242,810	8,119	181,769	189,888	1,432,698
Contributions	495,754	-	50	-	99,306	-	595,110	-	3,000	3,000	598,110
Other BOD/office expenses	127,615	446	906	1,497	396	106	130,966	1,011	2,036	3,047	134,013
Total expenses	\$ 4,441,377	\$ 4,401,334	\$ 4,137,958	\$ 3,533,753	\$ 1,758,266	\$ 1,596,481	\$ 19,869,169	\$ 2,635,196	\$ 2,083,393	\$ 4,718,589	\$ 24,587,758

	Year ended June 30, 2015										
	Program Services						Supporting Services			Total	
	Member Board Services	Examination Directorate	Information Systems Directorate	Customer Relations Directorate	I + E Directorate	Marketing & Communications Directorate	Total Program Expenses	Administration Directorate	Executive Office	Total Supporting Expenses	2015
Expenses:											
Employment/human resources	\$ 717,341	\$ 884,339	\$ 2,037,929	\$ 2,210,774	\$ 962,458	\$ 1,009,894	\$ 7,822,735	\$ 1,853,540	\$ 864,030	\$ 2,717,570	\$ 10,540,305
Operating expenses	1,238,597	491,061	1,969,210	1,124,540	182,901	158,504	5,164,813	434,084	68,563	502,647	5,667,460
Consulting	233,938	2,489,113	12,655	12,004	28,607	174,768	2,951,085	116,089	70,661	186,750	3,137,835
Travel	967,867	498,069	54,534	55,109	497,339	12,509	2,085,427	3,563	629,118	632,681	2,718,108
Other meeting expenses	847,804	143,275	8,599	10,303	136,499	8,192	1,154,672	4,616	140,539	145,155	1,299,827
Contributions	471,126	1,000	-	-	50,333	-	522,459	-	3,000	3,000	525,459
Other BOD/office expenses	119,840	350	299	731	635	550	122,405	262	4,579	4,841	127,246
Total expenses	\$ 4,596,513	\$ 4,507,207	\$ 4,083,226	\$ 3,413,461	\$ 1,858,772	\$ 1,364,417	\$ 19,823,596	\$ 2,412,154	\$ 1,780,490	\$ 4,192,644	\$ 24,016,240

See notes to the financial statements.

National Council of Architectural Registration Boards

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: National Council of Architectural Registration Boards (the Council) is a nonprofit organization of individual architectural registration boards. The general purpose of the Council is to develop and recommend standards to be required of an applicant for architectural registration; develop and recommend standards regulating the practice of architecture; provide a process for certifying to member boards the qualifications of an architect for registration; and represent the interests of member boards before public and private agencies.

The accompanying financial statements include the accounts of the Council and five of its regional conferences. The Council authorizes these five regional conferences to use its taxpayer identification number in conjunction with operating and managing the activities of the regional conferences. The net assets and operations of these five regional conferences have been included in the Council's operations for purposes of financial and tax reporting.

Income tax status: The Council is exempt from income taxes on its exempt activities under the provisions of Section 501(c)(6) of the Internal Revenue Code. However, the Council is subject to income taxes on any unrelated business income. The Council earned no unrelated business income during 2016 or 2015.

Basis of accounting: The Council prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, the Council considers all checking accounts, overnight repurchase agreements, money market funds and highly liquid investments with original maturities of 90 days or less to be cash and cash equivalents.

Accounts receivable: Accounts receivable consists primarily of registration fees for examinations which have been collected by the Council's third-party exam administrator but not yet remitted to the Council. Accounts receivable are presented at the net amount due to the Council. The Council's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Council's relationship with the customer, and the age of the receivable balance. The Council has established an allowance for doubtful accounts to estimate the portion of receivables that will not be collected, which is regularly reviewed by management. The allowance for doubtful accounts was \$0 and \$3,641 for the years ended June 30, 2016 and 2015, respectively.

National Council of Architectural Registration Boards

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred revenue: Deferred revenue consists primarily of cash received for record renewals and examination registrations which have been received in advance of the record expiration date and examination date, respectively.

Revenue recognition: Revenue from the Council's record services is recognized when the work is completed, and revenue for annual renewals is recognized at the time the record expires. Revenue from membership dues is billed and recognized on a fiscal year basis. The revenue associated with the Architect Registration Examination (ARE) is recognized when registrants take the divisions of the examination. The Council reports ARE revenue net of third-party exam administration fees. In accordance with the contractual agreement, the exam administrator withholds its fees from the amounts collected from the candidates and remits the net amount to the Council.

Subsequent events: Subsequent events have been evaluated through September 6, 2016, which is the date the financial statements were available to be issued.

B. CREDIT AND MARKET RISK

Credit risk: The Council maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portion of these accounts is backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Council.

Market risk: The Council invests in various investment instruments. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Overnight repurchase agreements involve investment risks, including the possible loss of principle. The mortgage-backed securities bought and sold daily are collateralized by one or more pools of residential mortgage loans that conform to the standards of the Federal National Mortgage Association ("FNMA" or "Fannie Mae") or the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") at the time of securitization. The Council had \$2,551,793 and \$2,652,064 in its overnight repurchase agreements account at June 30, 2016 and 2015, respectively.

National Council of Architectural Registration Boards

Notes to the Financial Statements

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Council uses the following prioritized input levels to measure fair value of financial instruments. The input levels used for valuing financial instruments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts. The Council does not hold any level 3 financial instruments.

The following is a summary of the input levels used to determine fair values at June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income securities				
Corporate bonds	\$ 2,211,905	\$ -	\$ 2,211,905	\$ -
Asset-backed securities	388,847	-	388,847	-
Government bonds	914,479	-	914,479	-
Mutual funds	3,132,214	3,132,214	-	-
Exchange-traded funds	979,403	979,403	-	-
Equity securities				
Common stock	875,676	875,676	-	-
Mutual funds	304,469	304,469	-	-
Exchange-traded funds	6,696,956	6,696,956	-	-
Investments carried at fair value	<u>\$ 15,503,949</u>	<u>\$ 11,988,718</u>	<u>\$ 3,515,231</u>	<u>\$ -</u>
Certificate of deposits *	2,153,083			
Cash and money market funds *	<u>952,646</u>			
Total investments	<u>\$ 18,609,678</u>			

National Council of Architectural Registration Boards

Notes to the Financial Statements

C. INVESTMENTS – CONTINUED

The following is a summary of the input levels used to determine fair values at June 30, 2015:

	Total	Level 1	Level 2	Level 3
Fixed income securities				
Corporate bonds	\$ 2,420,228	\$ -	\$ 2,420,228	\$ -
Asset-backed securities	399,363	-	399,363	-
Government bonds	788,978	-	788,978	-
Mutual funds	1,858,129	1,858,129	-	-
Exchange-traded funds	205,682	205,682	-	-
Equity securities				
Common stock	988,527	988,527	-	-
Mutual funds	819,618	819,618	-	-
Exchange-traded funds	5,237,385	5,237,385	-	-
Investments carried at fair value	\$ 12,717,910	\$ 9,109,341	\$ 3,608,569	\$ -
Certificate of deposits *	2,086,752			
Cash and money market funds *	543,043			
Total investments	\$ 15,347,705			

* Cash and money market funds and certificates of deposit included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

Investments classified in level 2 were valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach to obtain pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. Management believes the estimated fair values of assets classified in level 2 to be a reasonable approximation of the exit price for these investments.

The Board of Directors has designated that the Council's investments be allocated between short and long-term reserve funds, which were allocated as follows as of June 30,:

	2016	2015
Centennial fund	\$ 500,000	\$ -
Short-term reserve	3,009,286	2,945,346
Long-term reserve	15,100,392	12,402,359
	\$ 18,609,678	\$ 15,347,705

In addition, the Board of Directors has allocated \$500,000 of unrestricted net assets to be used for the Council's centennial celebration in 2019.

National Council of Architectural Registration Boards

Notes to the Financial Statements

C. INVESTMENTS – CONTINUED

Investment income and dividends are reported as operating activities, while the current year changes in fair value of investments (realized and unrealized gains and losses) are reported as non-operating activities. Investment fees are reported as a component of the Administration Directorate. Investment return consists of the following for the years ended June 30,:

Interest and dividends	\$ 459,642	\$ 268,275	
Realized loss on investments	(242,717)	(726,886)	
Unrealized gain on investments	126,704	159,360	
Investment fees	(81,659)	(60,062)	
	\$ 261,970	\$ (359,313)	

Investment purchases and sales between investment accounts for the year ended June 30, 2016 were \$8,827,957 and \$5,838,988, respectively, and investment purchases and sales between investment accounts for the year ended June 30, 2015 were \$14,280,951 and \$11,102,796, respectively.

D. PROPERTY, EQUIPMENT, AND CAPITALIZED SOFTWARE

Acquisitions of property and equipment greater than \$2,000 are recorded at cost and depreciated using the straight-line method over their respective useful lives, ranging from three to ten years. Leasehold improvements are amortized on a straight-line method over the shorter of the lease term or estimated useful life of the asset.

Property, equipment and capitalized software consists of the following at June 30,:

	2016	2015	
Furniture and equipment	\$ 732,935	\$ 716,750	
Leasehold improvements	756,052	650,973	
Computer software	4,678,047	2,947,222	
Examination services system	3,335,151	3,335,151	
	9,502,185	7,650,096	
Less: accumulated depreciation and amortization	(4,314,281)	(3,213,944)	
	\$ 5,187,904	\$ 4,436,152	

National Council of Architectural Registration Boards

Notes to the Financial Statements

D. PROPERTY, EQUIPMENT, AND CAPITALIZED SOFTWARE – CONTINUED

During fiscal year 2012, the Council selected a new vendor to manage the content and candidate management components of its examination services. As part of the transition process, work began on the development of a new testing system and the conversion of data from the old system. These transition costs have been capitalized in accordance with GAAP. The components were placed into service during the year ended June 30, 2014 and will be amortized over the period of the agreement with the vendor. Amortization expense relating to this asset of \$370,572 and \$388,605 was recorded as of June 30, 2016 and 2015, respectively.

E. RETIREMENT PLANS

The Council has a 457(b) salary deferral plan for key executives. As part of the plan, the Council reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. The Council's invested assets of deferred compensation consist of equity and fixed income mutual funds, which are classified as level 1 securities in accordance with GAAP. The balance in the deferred compensation plan is \$690,233 and \$644,008 at June 30, 2016 and 2015, respectively.

Effective July 1, 2000, the Council adopted a defined contribution 401(k) plan (the Plan) for employees. Effective July 1, 2003, the Council amended certain terms of the Plan to make employees immediately eligible to contribute a percentage of their compensation to the Plan.

The Council may make annual discretionary contributions to the Plan. In order to be eligible for this discretionary contribution, an employee must complete six months of service before a plan entry date (January 1 or July 1), must complete 500 hours of service during the plan year, and must be actively employed on the last day of the plan year (December 31). Employees begin vesting in the discretionary contribution at the end of their second year of service, fully vesting at the end of six years of service. The Council elected to institute Qualified Non-Elective contributions of 3% of employee compensation, effective January 1, 2009. The Plan also provides for self-directed investments by employees. The Council made discretionary contributions of \$194,000 and \$199,000 for the years ended June 30, 2016 and 2015, respectively.

National Council of Architectural Registration Boards

Notes to the Financial Statements

F. OPERATING LEASES

The Council leases office space, mailing, copying and computer equipment under non-cancelable operating leases. In connection with an operating lease arrangement for office space entered into in December 2008, the Council was granted certain incentives from the lessor, including a rent abatement and construction allowance. In May 2013, an additional \$350,000 lease incentive was granted to the Council in exchange for the Council giving up an option for expansion for additional space. The deferred rent and lease incentive liability recorded at June 30, 2016 and 2015 results from recording the variance between rent expense on a straight-line basis and cash flow basis over the term of the leases in accordance with GAAP.

Future minimum lease payments, exclusive of the Council's pro rata share of additional operating expenses, under non-cancelable leases at June 30, 2016 are as follows:

Year Ending June 30,	
2017	\$ 1,943,789
2018	1,900,240
2019	1,805,601
2020	1,811,620
2021	916,995
	<hr/>
	\$ 8,378,245

The Council paid rental expense of \$1,920,996 and \$1,910,694 for the years ended June 30, 2016 and 2015, respectively.

G. COMMITMENTS

The Council has several contracts with hotels for future meetings and conferences. All of the contracts contain a clause whereby the Council is liable for a portion of the costs of hotel rooms in the event of cancellation. The Council does not consider this to be a significant risk, as the Council does not anticipate any future cancellations, and the individual cancellation amounts would be immaterial to the financial statements as a whole.

National Council of Architectural Registration Boards

Notes to the Financial Statements

H. REGIONAL CONFERENCES

Included in the Council's financial statements are the regional conferences' assets, liabilities, net assets and operations, which are as follows as of and for the years ended June 30,:

	2016	2015
Assets		
Cash and cash equivalents	\$ 461,402	\$ 453,399
Investments	69,209	68,935
Total assets	<u>\$ 530,611</u>	<u>\$ 522,334</u>
Liabilities and net assets		
Accounts payable	\$ 12,038	\$ 12,355
Net assets		
Beginning of the year	509,979	457,726
Change in net assets	8,594	52,253
Regional conferences' net assets	<u>518,573</u>	<u>509,979</u>
Total liabilities and net assets	<u>\$ 530,611</u>	<u>\$ 522,334</u>

National Council of Architectural Registration Boards

Notes to the Financial Statements

I. CASH FLOWS

The following schedule reflects the reconciliation of the change in net assets to cash provided by operating activities for the years ended June 30,:

	2016	2015
Change in net assets	\$ 4,210,335	\$ 2,384,756
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,100,335	1,161,820
Realized and unrealized loss on investments	116,013	567,526
Reinvested dividend income	(377,980)	(208,213)
Changes in assets and liabilities:		
Accounts receivable	113,633	(109,959)
Prepaid expenses and other assets	98,133	(58,969)
Inventory	-	447,422
Accounts payable and accrued expenses	87,821	(9,751)
Accrued payroll and related liabilities	(258,132)	377,196
Deferred revenue	(95,614)	253,952
Deferred rent and lease incentive	(231,072)	(180,325)
Net cash provided by operating activities:	<u>\$ 4,763,472</u>	<u>\$ 4,625,455</u>