



Audited Financial Statements

2017

National Council of Architectural Registration Boards

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

June 30, 2017

National Council of Architectural Registration Boards

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T A T E



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A Professional Corporation

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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, 2017 and 2016 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, 2017 and 2016, 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 8, 2017

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National Council of Architectural Registration Boards

Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 3,494,127	\$ 3,092,426
Investments	20,361,315	18,609,678
Accounts receivable, net	108,362	283,625
Prepaid expenses and other assets	548,136	448,243
Investments - deferred compensation	470,741	690,233
Property, equipment, and capitalized software, net	5,377,154	5,187,904
Total assets	\$ 30,359,835	\$ 28,312,109
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,664,414	\$ 1,567,902
Accrued payroll and related liabilities	1,038,371	1,176,798
Deferred revenue	1,369,107	1,138,788
Deferred rent and lease incentive	1,322,593	1,605,566
Deferred compensation	470,741	690,233
Total liabilities	5,865,226	6,179,287
Net assets - unrestricted		
Council's net assets	23,977,444	21,614,249
Regional conferences' net assets	517,165	518,573
Total net assets	24,494,609	22,132,822
Commitments	-	-
Total liabilities and net assets	\$ 30,359,835	\$ 28,312,109

National Council of Architectural Registration Boards

Statements of Activities

<i>Year Ended June 30,</i>	2017	2016
Revenue		
Customer relations income	\$ 19,360,264	\$ 19,640,108
Examination income	8,979,057	8,115,030
Member board dues	351,000	351,000
Interest and dividends	472,592	459,642
Education income	121,274	271,775
Annual meetings, regional activities, and other income	126,807	76,551
Total revenue	29,410,994	28,914,106
Expenses		
Program services		
Examination Directorate	6,240,191	4,401,334
Council Relations Directorate	4,638,734	4,441,377
Information Systems Directorate	4,319,028	4,137,958
Business Development	142,519	-
Customer Relations Directorate	3,739,836	3,533,753
E + E Directorate	1,812,644	1,758,266
Marketing & Communications Directorate	1,688,306	1,596,481
Total program expenses	22,581,258	19,869,169
Supporting services		
Administration Directorate	2,918,090	2,635,196
Executive Office	2,578,112	2,083,393
Total supporting expenses	5,496,202	4,718,589
Total expenses	28,077,460	24,587,758
Change in net assets before change in fair value of investments	1,333,534	4,326,348
Realized and unrealized gain (loss) on investments	1,028,253	(116,013)
Change in net assets	2,361,787	4,210,335
Net assets, beginning of year	22,132,822	17,922,487
Net assets, end of year	\$ 24,494,609	\$ 22,132,822

See notes to the financial statements.

National Council of Architectural Registration Boards

Statements of Cash Flows

<i>Year Ended June 30,</i>	2017	2016
Cash flows from operating activities		
Cash received from:		
Customer relations income	\$ 19,379,481	\$ 19,450,367
Examination income	9,363,407	8,307,127
Education income	121,274	271,640
Member board dues	358,600	369,400
Annual meetings, regional activities, and other income	167,023	76,234
Total cash received	29,389,785	28,474,768
Cash paid for:		
Employment/human resource expenses	(11,657,027)	(11,076,467)
Operating expenses	(5,905,710)	(4,830,045)
Contributions	(587,662)	(598,110)
Consulting	(4,168,046)	(3,070,262)
Travel/other meeting expenses	(4,739,490)	(4,136,412)
Total cash paid	(27,057,935)	(23,711,296)
Net cash provided by operating activities	2,331,850	4,763,472
Cash flows from investing activities		
Cash paid for:		
Transfers into investments	(336,258)	(3,000,003)
Capital expenditures	(1,593,891)	(1,852,090)
Net cash used in investing activities	(1,930,149)	(4,852,093)
Net increase (decrease) in cash and cash equivalents	401,701	(88,621)
Cash and cash equivalents, beginning of year	3,092,426	3,181,047
Cash and cash equivalents, end of year	\$ 3,494,127	\$ 3,092,426

See notes to the financial statements.

National Council of Architectural Registration Boards

Statements of Functional Expenses

Year ended June 30, 2017

	Council Relations Directorate	Examination Directorate	Information Systems Directorate	Business Development	Customer Relations Directorate	E + E Directorate	Marketing & Communications Directorate	Total Program Expenses	Administration Directorate	Executive Office	Total Supporting Expenses	Total
												2017
Expenses:												
Employment/human resources	\$ 654,934	\$ 812,143	\$ 1,957,933	\$ 76,556	\$ 2,587,723	\$ 775,752	\$ 1,268,037	\$ 8,133,078	\$ 2,240,925	\$ 1,144,786	\$ 3,385,711	\$ 11,518,789
Operating expenses	1,215,092	1,330,403	2,312,333	-	1,036,046	251,763	230,692	6,376,329	455,566	90,194	545,760	6,922,089
Consulting	184,749	3,499,300	2,589	-	58,549	12,820	167,430	3,925,437	193,828	180,037	373,865	4,299,302
Travel	956,958	387,025	37,475	5,445	37,793	464,528	20,209	1,909,433	18,607	818,847	837,454	2,746,887
Other meeting expenses	1,020,805	209,854	8,101	-	18,817	311,991	1,884	1,571,452	8,502	236,271	244,773	1,816,225
Contributions	488,138	1,000	-	60,518	-	(4,507)	-	545,149	-	102,932	102,932	648,081
Other BOD/office expenses	118,058	466	597	-	908	297	54	120,380	662	5,045	5,707	126,087
Total expenses	\$ 4,638,734	\$ 6,240,191	\$ 4,319,028	\$ 142,519	\$ 3,739,836	\$ 1,812,644	\$ 1,688,306	\$ 22,581,258	\$ 2,918,090	\$ 2,578,112	\$ 5,496,202	\$ 28,077,460

Year ended June 30, 2016

	Council Relations Directorate	Examination Directorate	Information Systems Directorate	Business Development	Customer Relations Directorate	E + E Directorate	Marketing & Communications Directorate	Total Program Expenses	Administration Directorate	Executive Office	Total Supporting Expenses	Total
												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

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 protect the public health, safety, and welfare by leading the regulation of the practice of architecture through the development and application of standards for licensure and credentialing of architects.

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 2017 or 2016.

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 except for money market funds held in the investment portfolio.

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 for each of the years ended June 30, 2017 and 2016, 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, 2017, 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 \$2,903,137 and \$2,551,793 in its overnight repurchase agreements account at June 30, 2017 and 2016, 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, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income securities				
Corporate bonds	\$ 2,237,637	\$ -	\$ 2,237,637	\$ -
Asset-backed securities	440,533	-	440,533	-
Government bonds	908,493	-	908,493	-
Mutual funds	2,195,904	2,195,904	-	-
Exchange-traded funds	995,216	995,216	-	-
Equity securities				
Mutual funds	1,537,617	1,537,617	-	-
Exchange-traded funds	8,522,867	8,522,867	-	-
Investments carried at fair value	<u>\$ 16,838,267</u>	<u>\$ 13,251,604</u>	<u>\$ 3,586,663</u>	<u>\$ -</u>
Certificate of deposits *	2,648,516			
Cash and money market funds *	<u>874,532</u>			
Total investments	<u>\$ 20,361,315</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, 2016:

	Total	Level 1	Level 2	Level 3
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	\$ 15,503,949	\$ 11,988,718	\$ 3,515,231	\$ -
Certificate of deposits *	2,153,083			
Cash and money market funds *	952,646			
Total investments	\$ 18,609,678			

* 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,:

	2017	2016
Centennial fund	\$ 500,000	\$ 500,000
Short-term reserve	3,369,298	3,009,286
Long-term reserve	16,492,017	15,100,392
	\$ 20,361,315	\$ 18,609,678

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

Interest 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	\$ 472,592	\$ 459,642
Realized gain (loss) on investments	270,754	(242,717)
Unrealized gain on investments	757,499	126,704
Investment fees	<u>(85,467)</u>	<u>(81,659)</u>
	<u>\$ 1,415,378</u>	<u>\$ 261,970</u>

Investment purchases and sales between investment accounts for the year ended June 30, 2017 were \$8,329,720 and \$7,541,635, respectively, and investment purchases and sales between investment accounts for the year ended June 30, 2016 were \$8,827,957 and \$5,838,988, 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,:

	2017	2016
Furniture and equipment	\$ 730,129	\$ 732,935
Leasehold improvements	845,355	756,052
Computer software	4,357,044	4,678,047
Examination services system	<u>3,335,151</u>	<u>3,335,151</u>
	9,267,679	9,502,185
Less: accumulated depreciation and amortization	<u>(3,890,525)</u>	<u>(4,314,281)</u>
	<u>\$ 5,377,154</u>	<u>\$ 5,187,904</u>

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 was \$370,572 for each of the years ended June 30, 2017 and 2016.

E. LINE OF CREDIT

During 2017, the Council opened a revolving line of credit collateralized with its assets that are held at the financial institution. The line of credit allows maximum borrowings up to \$5,000,000 and bears interest at a variable rate based upon the outstanding balance and estimated repayment period. During the year ended June 30, 2017, no amounts were drawn on the line of credit and no amounts were outstanding under this line of credit as of June 30, 2017.

F. 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 \$470,741 and \$690,233 at June 30, 2017 and 2016, 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 Qualified Non-Elective contributions of \$276,472 and \$244,200 and discretionary contributions of \$203,000 and \$194,000 for the years ended June 30, 2017 and 2016, respectively.

National Council of Architectural Registration Boards

Notes to the Financial Statements

G. 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, 2017 and 2016 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, 2017 are as follows:

Year Ending June 30,	
2018	\$ 1,966,024
2019	1,871,385
2020	1,852,985
2021	916,995
	<u>\$ 6,607,389</u>

The Council paid rental expense of \$1,930,408 and \$1,920,996 for the years ended June 30, 2017 and 2016, respectively.

H. 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

I. REGIONAL CONFERENCES

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

	2017	2016
Assets		
Cash and cash equivalents	\$ 499,935	\$ 461,402
Investments	69,484	69,209
Total assets	<u>\$ 569,419</u>	<u>\$ 530,611</u>
Liabilities and net assets		
Accounts payable	\$ 52,254	\$ 12,038
Net assets		
Beginning of the year	518,573	509,979
Change in net assets	<u>(1,408)</u>	<u>8,594</u>
Regional conferences' net assets	<u>517,165</u>	<u>518,573</u>
Total liabilities and net assets	<u>\$ 569,419</u>	<u>\$ 530,611</u>

J. 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,:

	2017	2016
Change in net assets	\$ 2,361,787	\$ 4,210,335
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,404,643	1,100,335
Realized and unrealized (gain) loss on investments	(1,028,253)	116,013
Reinvested dividend income	(387,128)	(377,980)
Changes in assets and liabilities:		
Accounts receivable	175,263	113,633
Prepaid expenses and other assets	(99,893)	98,133
Accounts payable and accrued expenses	96,512	87,821
Accrued payroll and related liabilities	(138,427)	(258,132)
Deferred revenue	230,319	(95,614)
Deferred rent and lease incentive	<u>(282,973)</u>	<u>(231,072)</u>
Net cash provided by operating activities:	<u>\$ 2,331,850</u>	<u>\$ 4,763,472</u>