

The Society for Protective Coatings

Financial Statements

Years Ended December 31, 2017 and 2016
with Independent Auditor's Report

MaherDuessel

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THE SOCIETY FOR PROTECTIVE COATINGS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Independent Auditor's Report

**Board of Governors
The Society for
Protective Coatings**

We have audited the accompanying financial statements of The Society for Protective Coatings (SSPC), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 audits 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 estimated 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 SSPC as of December 31, 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.

Mahe Duessel

Pittsburgh, Pennsylvania
May 7, 2018

THE SOCIETY FOR PROTECTIVE COATINGS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
Assets		
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Current assets:		
Cash and cash equivalents	\$ 2,881,800	\$ 2,409,079
Investments	14,312,053	12,339,005
Accounts receivable	577,348	294,373
Inventory	81,645	58,856
Prepaid expenses	446,061	314,325
Other current assets	2,525	-
Total current assets	18,301,432	15,415,638
Fixed assets:		
Land	168,975	168,975
Buildings and improvements	3,491,316	3,491,316
Equipment, furniture, and fixtures	1,020,052	713,592
	4,680,343	4,373,883
Less: accumulated depreciation	(657,613)	(294,008)
Total fixed assets	4,022,730	4,079,875
Total Assets	\$ 22,324,162	\$ 19,495,513
Liabilities and Net Assets		
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Liabilities:		
Current liabilities:		
Accounts payable	\$ 338,205	\$ 223,644
Accrued expenses	459,190	379,813
Deferred revenue	4,497,400	3,671,048
Total Liabilities	5,294,795	4,274,505
Net Assets:		
Unrestricted	17,029,367	15,221,008
Total Net Assets	17,029,367	15,221,008
Total Liabilities and Net Assets	\$ 22,324,162	\$ 19,495,513

See accompanying notes to financial statements.

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STATEMENTS OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating Activities:		
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Revenue:		
Training and individual certification	\$ 3,382,424	\$ 2,879,127
Corporate certification program	2,046,610	2,028,126
Membership	1,137,152	1,071,922
Conference	1,403,998	940,131
Publications	478,552	432,710
Royalties	67,620	108,320
Special projects	-	78,506
Miscellaneous income	55,584	33,644
	8,571,940	7,572,486
Expenses:		
Employee compensation	2,843,025	2,530,367
Taxes and benefits	659,822	680,959
Program expenses:		
Consulting fees	1,153,027	975,735
Conference expenses	1,120,548	732,547
Corporate certification program fees	374,175	395,687
Membership	182,021	152,145
Publication	46,663	93,500
Marketing, advertising, and promotion	126,435	71,665
Administrative	826,188	669,140
Technology	353,705	320,168
Staff travel	296,246	285,975
Building expenses	184,891	181,331
Supplies	155,708	100,582
Miscellaneous	115,354	-
Financial services	198,966	120,328
	8,636,774	7,310,129
Net Change From Operating Activities	(64,834)	262,357
Nonoperating Activities:		
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Investment return, net	1,873,193	931,604
Change in Net Assets	1,808,359	1,193,961
Net Assets:		
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Beginning of year	15,221,008	14,027,047
End of year	\$ 17,029,367	\$ 15,221,008

See accompanying notes to financial statements.

THE SOCIETY FOR PROTECTIVE COATINGS

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,808,359	\$ 1,193,961
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	408,053	264,991
Realized and unrealized (gain) loss on investments	(1,894,927)	(951,697)
Change in:		
Accounts receivable	(282,975)	140,349
Inventory	(22,789)	49,620
Prepaid expenses	(131,736)	125,000
Other current assets	(2,525)	-
Accounts payable	114,561	100,758
Accrued expenses	79,377	(250,073)
Deferred revenue	826,352	447,547
Net cash provided by (used in) operating activities	901,750	1,120,456
Cash Flows From Investing Activities:		
Purchase of fixed assets	(350,908)	(1,118,221)
Purchase of investments	(99,855)	-
Proceeds on sale of investments	21,734	20,093
Net cash provided by (used in) investing activities	(429,029)	(1,098,128)
Net Increase (Decrease) in Cash and Cash Equivalents	472,721	22,328
Cash and Cash Equivalents:		
Beginning of year	2,409,079	2,386,751
End of year	\$ 2,881,800	\$ 2,409,079

See accompanying notes to financial statements.

THE SOCIETY FOR PROTECTIVE COATINGS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Organization

The Society for Protective Coatings (SSPC) is a Pennsylvania nonprofit membership corporation. The purposes of SSPC are to assess and advance the technology of surface preparation and coating of industrial structures by conducting research, developing industry standards, and to organize, and effectively communicate to the industry, information intended to further improve and make more effective the protection of industrial structures.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues and support are recorded when earned and expenses are recognized when the liabilities are incurred.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of SSPC and/or the passage of time.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that must be maintained permanently by SSPC. Generally, the donors of these assets permit the use of all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purposes have been accomplished and/or the stipulated time

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Revenue and Expense Recognition

Income from membership dues and program service fees are deferred and recognized over the periods to which the specific types of income relate. Costs and expenses related to such activities are also deferred as prepaid expenses and recognized in the period when the programs are held.

Deferred Revenue

The amount shown as deferred revenue is composed of advance payments for future training sessions, conferences, certification audits, and also memberships.

Inventory

Inventory is stated at the lower of cost (determined by the first in, first out method of accounting) or net realizable value. Physical inventory counts are performed on a quarterly basis.

Cash and Cash Equivalents

For purposes of the statements of cash flows, SSPC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

SSPC's investments are presented at fair value.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. SSPC provides for losses on accounts receivable using the allowance method, which management evaluates based on experience and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts and has deemed the receivable uncollectible are written off through bad debts. No allowance for doubtful accounts was deemed necessary for the years ended December 31, 2017 and 2016.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Income Taxes

SSPC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. SSPC annually files federal information returns as required. There is no current year provision for federal income taxes.

Property and Equipment

Property and Equipment consisting of land, building, building improvements, and equipment are stated at cost, less accumulated depreciation. Provision for depreciation is based upon the estimated useful lives of the respective assets and is computed using the straight-line method. All equipment is depreciated over its estimated useful lives of from three to five years. Building and improvements are depreciated over their estimated useful lives. SSPC capitalizes all new assets with a cost of \$1,000 or more.

Concentration of Credit Risk

Financial instruments which potentially subject the organization to concentrations of credit risk consist principally of cash, investments, and trade receivables. SSPC places its cash and cash equivalents with financial institutions that management considers to be of high quality; however, at times, such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. FDIC insures the balances in institutions in the U.S. up to \$250,000. At December 31, 2017 and 2016, SSPC's uninsured cash balances were \$2,718,532 and \$2,159,079, respectively. SSPC's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the financial statements. However, SSPC's investments, by policy, are kept within limits designed to prevent risks caused by concentration.

Credit risk with respect to trade receivables is limited due to the large number of customers comprising SSPC's customer base and their dispersion across different geographic areas.

Operating Activities

For purposes of the statements of activities, SSPC distinguishes between operating revenue and expenses and nonoperating revenue and gains. SSPC treats as operating revenue and operating expenses all revenues and expenses that are an integral part of its programs and supporting activities. All other activity is nonoperating revenues and gains.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Use of 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 amount of assets and liabilities and disclosures 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 may differ from those estimates.

Pending Standards Update

The FASB has issued amendments to the FASB Accounting Standards Codification that will become effective in future years as shown below. Management has assessed the impact of these standards and plans to implement the standards as required.

ASU No. 2014-09, *“Revenue from Contracts with Customers (Topic 606),”* effective for SSPC’s financial statements for the year ending December 31, 2019. This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customer and related disclosures.

ASU No. 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* effective for SSPC’s financial statements for the year ending December 31, 2018. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions, qualitative and quantitative information on liquidity, methods to allocate costs among program and support functions, and underwater donor-restricted endowment.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor’s Report date, which is the date the financial statements were available to be issued.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

3. Descriptions of Programs

Membership

SSPC is a member-driven professional society providing access to training, certification, standards, and information to people within the coatings industry. SSPC has over 11,000 individual members, over 950 organizational members, and has local chapters around the world.

Training and Individual Certification

SSPC provides various trainings and certifications to its members and to other individuals within the coatings industry.

Corporate Certification Program

SSPC offers companies the opportunity to become a certified contractor. The certification process involves an on-site audit by an SSPC auditor. SSPC performs various types of initial and maintenance audits for members.

Publications/Standards

SSPC prints and distributes its own line of publications providing information on the coatings industry.

SSPC standards, specifications, and guides serve as voluntary guidelines for using coatings to protect public and corporate structures. Each of these documents is prepared using consensus procedures in accordance with the current Essential Requirements of the American National Standards Institute. As used in this manual, "consensus" indicates substantial agreement, but not necessarily unanimity.

Conference

SSPC hosts an annual conference that brings together coatings professionals from around the world. It provides an annual meeting for networking and training.

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NOTES TO FINANCIAL STATEMENTS

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4. Fair Value Measurements

The fair value hierarchy established under generally accepted accounting principles prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable inputs that reflect management's best estimate of what market participants would use in pricing the investment at the measurement date. SSPC uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, SSPC measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There were no Level 3 inputs applicable to SSPC's fair value measurements.

The following table summarizes fair value measurements by level at December 31, 2017 for investments measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 4,727,310	\$ -	\$ -	\$ 4,727,310
Domestic stock	7,822,044	-	-	7,822,044
International stock	1,611,890	-	-	1,611,890
Taxable bond	150,809	-	-	150,809
Total	<u>\$ 14,312,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,312,053</u>

The following table summarizes fair value measurement by level at December 31, 2016 for investments measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 3,975,021	\$ -	\$ -	\$ 3,975,021
Domestic stock	7,014,908	-	-	7,014,908
International stock	1,199,593	-	-	1,199,593
Taxable bond	149,483	-	-	149,483
Total	<u>\$ 12,339,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,339,005</u>

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The fair values of mutual funds, common stocks, and taxable bond are based upon quoted prices for identical instruments traded in active markets and, as such, are classified at December 31, 2017 and 2016 as Level 1 assets within the fair value hierarchy.

The following schedule summarizes the investment return for the year ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 202,700	\$ 302,010
Unrealized gains (losses)	<u>1,692,227</u>	<u>649,687</u>
Subtotal, investment return	1,894,927	951,697
Less Investment Fees	<u>(21,734)</u>	<u>(20,093)</u>
Total	<u>\$ 1,873,193</u>	<u>\$ 931,604</u>

5. Property and Equipment

Property and equipment at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 168,975	\$ 168,975
Building	2,331,025	2,331,025
Building improvements	1,160,291	1,160,291
Equipment	538,491	267,619
Software development	481,561	445,973
Less: accumulated depreciation	<u>(657,613)</u>	<u>(294,008)</u>
	<u>\$ 4,022,730</u>	<u>\$ 4,079,875</u>

Depreciation expense for the year ended December 31, 2017 and 2016 was \$408,053 and \$264,991, respectively.

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NOTES TO FINANCIAL STATEMENTS

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6. Defined Contribution Plan

The SSPC Retirement Plan (Plan) is a defined contribution plan established by the Board of Governors and effective as of January 1, 1993. New employees are able to participate in the Plan once they satisfy the Plan's eligibility conditions. An eligible employee is able to make elective deferrals and Employer contributions on the date of hire. The employees who are excluded from eligibility are those employees who normally work less than 20 hours per week. Benefits are provided through fixed-dollar annuities issued by the Teachers Insurance and Annuity Association (TIAA) and through variable annuities offered by TIAA's companion organization, the College Retirement Equities Fund (CREF). The Plan operates under section 403(b) of the Internal Revenue Code and uses TIAA and CREF Retirement Annuities to provide benefits.

All Plan contributions are discretionary based on Board of Governors and Executive Director approval, and historically have been made on a monthly basis at the rate of 8% of total compensation less any non-vested repurchased funds due to employee terminations. The cost expensed by SSPC for the fiscal years ended December 31, 2017 and 2016 was \$186,651 and \$168,059, respectively.

7. Related Party Transactions

During the years ended December 31, 2017 and 2016, SSPC paid fees and expenses to Technology Publishing Company, an entity related to SSPC through stock ownership and combined participation in certain activities. The net amount of the fees and expenses paid during the fiscal years ended December 31, 2017 and 2016 was \$88,129 and \$81,074, respectively.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

8. Functional Classification of Expenses

The functional classification of expenses for the year ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 6,670,560	\$ 5,261,759
Management and general	<u>1,966,214</u>	<u>2,048,370</u>
	<u>\$ 8,636,774</u>	<u>\$ 7,310,129</u>

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.