NATIONAL ASPHALT PAVEMENT ASSOCIATION
AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2019

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JM&M
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Certified Public Accountants

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Independent Auditor's Report

The Executive Committee and
the Dues, Finance and Audit Committee
National Asphalt Pavement Association, Inc. and Subsidiary
Lanham, Maryland

We have audited the accompanying consolidated financial statements of the National Asphalt Pavement Association, Inc. and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2019, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of World of Asphalt Joint Venture, a greater than 50% owned subsidiary, which statements reflect total assets of $417,198 as of December 31, 2019, and total revenues of $2,776,873 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for World of Asphalt Joint Venture, is based solely on the report of the other auditors. We conducted our audit 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 consolidated 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 consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Asphalt Pavement Association, Inc. and subsidiary as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B to the financial statements, in 2019, National Asphalt Pavement Association, Inc. and Subsidiary adopted new accounting guidance, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* and ASU 2016-18 *Statement of Cash Flows*. Our opinion is not modified with respect to this matter.

Jones Marrese & McQuade PA

Washington, DC
October 27, 2020

NATIONAL ASPHALT PAVEMENT ASSOCIATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	8,529,618
Accounts receivable		202,303
Pledges receivable, current portion		90,400
Prepaid expenses		327,591
Inventory		119,909
Total Current Assets		9,269,821
OTHER ASSETS		
Restricted cash and cash equivalents		392,643
Investments		12,832,750
Pledges receivable, net of current portion		16,000
Deferred compensation investments		213,448
Deferred rental asset		35,735
Total Other Assets		13,490,576
LAND, BUILDING AND EQUIPMENT		
Furniture and equipment		505,644
Leasehold improvements		886,730
		1,392,374
Less accumulated depreciation		(299,788)
Property and Equipment, Net		1,092,586
TOTAL ASSETS	$	23,852,983

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

NATIONAL ASPHALT PAVEMENT ASSOCIATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(continued)

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	380,839
Accrued annual leave		155,320
Deferred registration fees, trade show and annual meeting income		845,373
Deferred membership fees		2,878,961
Deferred revenue - other		403,867
Total Current Liabilities		4,664,360
NON CURRENT LIABILITIES		817,246
TOTAL LIABILITIES		5,481,606
NET ASSETS		
Without donor restrictions:		
Unrestricted		11,655,724
Board designated		1,197,066
Non-controlling interest		50,384
Total without donor restrictions		12,903,174
Donor restricted for purpose or passage of time		5,468,203
TOTAL NET ASSETS		18,371,377
TOTAL LIABILITIES AND NET ASSETS	$	23,852,983

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

NATIONAL ASPHALT PAVEMENT ASSOCIATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Dues	$ 4,437,832	$ -	$ 4,437,832
Trade show	2,776,873	-	2,776,873
Meetings	1,990,216	-	1,990,216
Training	124,274	-	124,274
Contributions	384,074	598,982	983,056
In-kind contributions	73,657	-	73,657
NCAT textbook and CD sales	15,465	-	15,465
NCAT rent income	377,150	-	377,150
Contracts	372,098	-	372,098
Commendation and award application fees	553,530	-	553,530
Other	158,745	-	158,745
Investment income, net	923,442	566,173	1,489,615
Net assets released from restriction	681,920	(681,920)	-
Total Revenue and Support	12,869,276	483,235	13,352,511
EXPENSES			
Program expenses	9,793,434	-	9,793,434
Management and general	1,396,831	-	1,396,831
Fundraising and membership development	124,490	-	124,490
Total Expenses	11,314,755	-	11,314,755
EXCESS OF REVENUES AND SUPPORT OVER EXPENSES	1,554,521	483,235	2,037,756
DRAWS BY JOINT VENTURE PARTNERS	(590,307)	-	(590,307)
CHANGE IN NET ASSETS	964,214	483,235	2,037,756
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING ACCOUNTING PRINCIPAL - NET ASSETS	(302,656)	-	(302,656)
NET ASSETS, BEGINNING OF YEAR	12,241,616	4,984,968	17,226,584
NET ASSETS, END OF YEAR	$ 12,903,174	$ 5,468,203	$ 18,371,377

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

NATIONAL ASPHALT PAVEMENT ASSOCIATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 1,447,449
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation and amortization	64,940
(Gain)/loss on disposal of property and equipment	12,079
Net appreciation in fair value of investments (including restricted investments)	(1,038,300)
Decrease (increase) in:	
Accounts receivable	234,073
Pledges receivable	34,800
Prepaid expenses	447,609
Inventory	263
Deferred compensation investments	(31,043)
Deferred rental asset	40,623
(Decrease) increase in:	
Accounts payable and accrued expenses	(372,562)
Accrued annual leave	3,991
Deferred registration fees, trade show and annual meeting income	(209,837)
Deferred membership fees	(163,053)
Deferred compensation invesments	31,043
Deferred revenue - other	(1,878,997)
Deferred rent	458,338
Net Cash Used for Operating Activities	(918,584)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of land, building and equipment	(1,072,077)
Proceeds from sales of investments	1,940,370
Purchases of investments	(4,183,810)
Net Cash Used for Investing Activities	(3,315,517)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(4,234,101)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	13,156,362
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 8,922,261
SUPPLEMENTAL INFORMATION:	
Cash and Cash Equivalents	$ 8,529,618
Restricted Cash and Cash Equivalents	392,643
Total Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents	$ 8,922,261

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

NATIONAL ASPHALT PAVEMENT ASSOCIATION, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE A – ORGANIZATION AND PURPOSE

National Asphalt Pavement Association, Inc. and subsidiary (collectively, the "Association") operates as a non-profit trade association providing direct services to the asphalt and paving industry. The Association's principal sources of funding are membership dues, meeting registrations, and contributions. The Association supports active research programs, provides technical, educational, and marketing materials to its members, and provides services to its members and the general public on issues relating to the Asphalt Industry.

In addition to an annual meeting, the Association partners with other organizations on environmental and regulatory issues, engineering, research and technology, seminars and tradeshows for the asphalt pavement industry.

The National Asphalt Pavement Association Research and Education Foundation, Inc. ("the Foundation") was organized in 1978 for the purpose of conducting and implementing research and educational programs in technical and management areas related to asphalt design and construction. The Foundation's principal source of funding is in the form of contributions from private and corporate donors in the asphalt industry and earnings from various programs.

The National Asphalt Pavement Association's Political Action Committee ("NAPA PAC") is the only national political action committee in Washington, D.C. representing the asphalt industry before Congress.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Principles of Consolidation</u>

Under FASB ASC Topic Consolidations, these consolidated financial statements include the accounts of NAPA, its Foundation, and its greater than 50%-owned subsidiary, World of Asphalt Joint Venture ("WOA"). All material inter-association transactions have been eliminated in consolidation.

Under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic *Consolidations*, NAPA's consolidated financial statements include the activity of NAPA, WOA, National Asphalt Pavement Association Research and Education Foundation (the "Foundation") and the National Asphalt Pavement Association's Political Action Committee (the "PAC"). The standalone parent company financial statements presented herein should be read in conjunction with the Association's consolidated financial statements and the accompanying notes thereto.

<u>Basis of Accounting</u>

National Asphalt Pavement Association, Inc. ("NAPA"), its Foundation and subsidiary's, World of Asphalt Joint Venture, consolidated financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

<u>Adoption of New Accounting Pronouncement</u>

During 2019, the Association adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Adoption of New Accounting Pronouncement (continued)

The guidance provided in this ASU will assist in evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) or as exchange (reciprocal) transactions and whether a contribution is conditional. As required by ASU 2018-08, the Association applied the requirements on a modified prospective basis to agreements that either are not completed as of January 1, 2019 or entered into after January 1, 2019. Upon adoption of ASU 2018-08, the Association determined that a federal cooperative agreement previously treated as an exchange transaction meets the new definition of a conditional contribution. The adoption of ASU 2018-08 did not have a significant impact on the Association's accounting for contributions or federal awards.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 requires an entity to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity is expected to be entitled in exchange for those goods or services. On January 1, 2019, the Association adopted ASU 2014-09, using the modified retrospective approach. The Association applied the five-step revenue model stipulated by ASC Topic 606 to all of its significant revenue streams in order to determine when revenue is earned and recognized. The five-step model requires the Association to i.) identify contracts with customers, ii.) identify performance obligations related to those contracts, iii.) determine the transaction price, iv.) allocate that transaction price to each performance obligation, v.) recognize revenue when or as the Association satisfies a performance obligation. Comparative period information has not been restated and continues to be reported under the accounting standards in effect for those periods. Adoption of this guidance had an immaterial impact on the Association's Consolidated Statement of Activities. The cumulative effect of applying the new standard on the Consolidated Statement of Financial Position as of January 1, 2019 was recognized as an adjustment to the opening balance of net assets without donor restrictions, decreasing beginning net assets without donor restrictions by $302,656, with a corresponding increase in deferred revenue.

The following table summarizes the effect of adopting ASU 2014-09 on WOA's 2019 financial statements:

	2019 Balances as Reported	2019 Balances Without ASU 2014-09 Adoption	Effect of Adoption
Statement of Activities			
Exhibit space	$ 2,163,551	$ 2,043,601	$ 119,950
Entrance fees	299,517	259,330	40,187
Sponsorships	121,650	11,500	110,150
Housing	146,343	145,426	917
Other revenue	45,287	13,835	31,452
Total Revenue	$ 2,776,348	$ 2,473,692	$ 302,656
Statements of Cash Flows			
Cash flows from operating activities			
Net Income	$ 913,250	$ 1,215,906	$ (302,656)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Adoption of New Accounting Pronouncement (continued)

In accordance with the new guidance, revenues associated with the WOA trade show that provide show attendees and exhibitors access to a trade show are now recognized at the time of the trade show. Previously, such revenues were recognized over the show's operating cycle according to the percentage of completion method of accounting. The Association does not expect this guidance to have a material impact on trade show revenues on an ongoing basis.

In addition, during 2019, the Association adopted ASU 2016-18 *Statement of Cash Flows* which requires the presentation of total change in cash, cash equivalents, restricted cash, and restricted cash equivalents for the period in the statement of cash flows. ASU 2016-18 was applied retrospectively.

Basis of Presentation

The consolidated financial statement presentation follows FASB ASC topic 958, Not-for-Profit Entities. In accordance with the topic, the Association is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources by maintained in perpetuity. There were no such perpetual restrictions as of December 31, 2019 or 2018. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Association considers all highly liquid investments purchased with an original maturity of less than three months to be cash equivalents.

Restricted Cash

Restricted cash includes funds collected under the sublease agreement and banking fee reimbursement agreement between the Foundation and the NCAT. Restricted cash includes funds collected under the sublease agreement and banking fee reimbursement agreement between the Foundation and the NCAT.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Restricted Cash (continued)

The restricted cash for NAPAREF are the Scholarship Donations, the NAPA CARE donations and the Professor Training donations that NAPAREF receives Scholarship donations are restricted for scholarship applicants who qualify for, meet the requirements, and are awarded an asphalt scholarship through NAPAREF's scholarship program. NAPA CARE donations are restricted for families who are eligible to receive an immediate tax-free cash benefit from the NAPA CARE fund when an immediate family member, who is also an employee of NAPA member company, experiences a fatal accident in a work zone or plant work area. The Professor Training Program donations are restricted for qualified attendees who attend NAPAREF's Professor Training held at the NCAT facility.

Accounts Receivable

Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts. The Association provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Association considers payment history and current economic conditions when establishing an allowance for uncollectible accounts receivables. It is reasonably possible that the Association’s estimate of the allowance for doubtful accounts will change. No allowance for doubtful accounts is considered necessary as of December 31, 2019.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Association that is in substance unconditional. Contributions that are restricted by the donor are reported as net assets with donor restrictions depending on the nature of the restrictions.

Pledges receivable are expected to be collected by the Association within one year. Pledges have not been discounted due to the short term nature.

Inventory

Inventory is stated at the lower of cost, determined by the first-in, first-out method, or market. Inventory consists primarily of publications, textbooks, and CDs relating to the asphalt industry.

Land, Building, and Equipment

Land, building, and equipment are recorded at cost and depreciation is recorded on the straight-line basis over the estimated useful lives of the property which range from 3 to 25 years. Expenditures and related improvement costs which extend the useful lives of furniture and equipment are capitalized. Expenditures for maintenance repairs are charged to expenses as incurred.

Intangibles

Intangibles include the cost of developing the Association’s Internet web site, online-store, and online membership service program. Amortization is computed over the estimated useful lives of the assets by the straight-line method for financial reporting purposes.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Intangibles (continued)

Web site design, upgrade, and online-store costs totaled $162,295 as of December 31, 2019 . Accumulated amortization totaled $162,295 as of December 31, 2019. There was no amortization expense for the year ended December 31, 2019.

Deferred Rent Liability

The Association recognizes rent expense, including incentives, on a straight-line basis over the term of the lease. Deferred rent liability records the rent expense recognized on a straight-line basis in excess of cash payments.

Rental expense and sublease income associated with the leases for the NCAT are recognized on the straight-line basis over the life of the leases.

Investments

Investments are stated at fair value as determined by the fund custodians based on market price quotations.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs along with donated professional services have been allocated among the programs and supporting services benefited.

Revenue Recognition

Membership dues and assessments - Membership dues for producer members are invoiced one year in advance, on a quarterly basis, for the subsequent year’s membership, based on amounts determined under the Association’s dues formula. The total annual producer dues provide membership benefits from January 1 – December 31, which corresponds with the Association’s fiscal year.

Associate, international and individual membership dues are invoiced in full at the beginning of the year, for the current year’s membership period, January 1 – December 31, which corresponds with the Association’s fiscal year.

Revenue from membership dues is recognized during the membership year as membership benefits are provided, resulting in no related deferred revenue balance for the current annual membership period at year end. For producer members, any amounts collected during the current year related to the subsequent year’s membership are deferred at December 31. Member benefits include a discount on exhibit space at the WOA trade show of $12.45 per square foot, primarily used by associate members, discounts on Association meetings and discounts on advertising in Association products including the Asphalt Pavement Magazine, along with other benefits for all categories of membership.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition (continued)

Trade show revenues – Trade show revenues include amounts paid by or on behalf of trade show participants, exhibitors, and sponsors for the WOA trade show. Entrance, housing, and exhibitor fees, as well as other educational program fees, are based on published fixed rates and collected either at the time of registration, in advance of the trade show resulting in a deferred revenue balance, or at the time that the trade show takes place and immediately recognized as revenue.

Meeting revenues – Meetings revenues include amounts paid by or on behalf of meeting participants and sponsors. Registration fees are based on published fixed rates and collected either at the time of registration, in advance of the meeting resulting in a deferred revenue balance, or at the time that the meeting takes place and immediately recognized as revenue.

Meeting sponsorships, which are generally considered nonreciprocal transactions, are recognized when the conditions associated with providing the sponsorship are met at the meeting. As such, all meeting revenue is recognized upon completion of the respective meeting.

Federal Cooperative Agreement – Cooperative agreements with federal sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying reimbursable expenses have been incurred and conditions under the agreements are met. The Association has elected the simultaneous release policy available under ASU 2018-08 for donor-restricted contributions that were initially conditional contributions, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized.

Based on the adoption of ASU 2018-08, the Association's federal cooperative agreement with the U.S. Federal Highway Administration was considered a conditional contribution for the year ended December 31, 2019. The Association had no unrecognized conditional contributions as of December 31, 2019 as the agreement terminated during 2019.

Commendation and award application fees – Diamond Achievement commendation and award program application fees are based on published fixed prices and collected at the time the application is submitted, which creates a deferred revenue balance. Revenue from all application fees is recognized in the period the evaluation is completed and the performance obligations are satisfied. The submission of the application and the completion of the evaluation both occur within the same fiscal year resulting in no deferred revenue balance at year end.

Training revenue – Training revenues for the People, Plants and Paving program are based on published fixed prices and collected either at the time of registration, in advance of the training program resulting in a deferred revenue balance, or at the time that the training takes place and immediately recognized as revenue.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift. Contributed services and materials are recorded at their estimated fair value if they would otherwise be purchased if not provided by donation and provided by professionals in their field.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition (continued)

Management considers all outstanding contributions receivable amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

NCAT textbook and CD sales - NCAT textbook and CD prices are fixed at the time of purchase based on price listings or negotiated rates. Most customers pay at the time of purchase, but some customers are invoiced for purchases. Revenue from NCAT textbook and CD sales is recognized in the period that the textbook or CD is delivered to the customer.

Other revenues – Other revenues, which include fees from publications, royalties from advertising, fees from producer member initiation, and other items are received and recognized when the services are rendered, and typically occur in the same year.

Donated Services and In-Kind Contributions

The Foundation receives certain management and professional services from a related organization at no charge. The value of these donated professional services is recorded at the respective fair values of the services received.

NOTE C – INCOME TAXES

NAPA is exempt from Federal income tax under Section 501(c)(6) of the Internal Revenue Code. The Foundation is a 501(c)(3) organization exempt from federal and state income taxes under Section 501(a) of the Internal Revenue Code. The Association is not considered to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

The Association is required to report unrelated business income to the Internal Revenue Service and the State of Maryland. The Association had no material unrelated business income tax liability for the years ended December 31, 2019.

The Association has adopted the accounting for uncertainty in income taxes as required by the Income Taxes topic of the FASB Accounting Standards Codification. The topic requires the Association to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position.

The tax benefit to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement which could result in the Association recording a tax liability that would reduce the Association's net assets. The Association has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open years (2016-2018), or expected to be taken in the Association's 2019 information returns. The Association is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amount of unrecognized tax benefits will change materially in the next twelve months.

NOTE D – CONDITIONAL PROMISES

The Foundation's Asphalt Industry Scholarship Program has been designated to receive a $1,000,000 bequest less contributions given during the donor's lifetime. There were no amounts were received from the donor for the year ended December 31, 2019. Amount received from the donor since notification of bequest totaled $313.944 as of December 31, 2019.

NOTE E – INVESTMENTS

Investments consist of the following as of December 31, 2019:

Money market funds	$	437,402
Fixed income		7,107,573
Equities		5,287,775
Total Investments	$	12,832,750

Investment income for the year ended December 31, 2019 consisted of the following:

Interest and dividends	$	455,122
Investment management fees		(31,075)
Net appreciation in fair value		1,065,568
Investment Income, Net	$	1,489,615

NOTE F – FAIR VALUE MEASUREMENT

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price.

The guidance on fair value measurement accounting requires that the Association make assumptions market participants would use in pricing an asset or liability based on the best information available. The Association considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgment, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity.

NOTE F – FAIR VALUE MEASUREMENT – continued

To increase consistency and enhance disclosure of the fair value of financial instruments, the fair value measurement accounting guidance established a fair value of inputs to the valuation in technique, into a three-level fair value hierarchy. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where level 1 is the highest and level 3 is the lowest. The three levels are defined as follows:

> Level 1 – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
>
> Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.
>
> Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Unobservable inputs should only be used to the extent observable inputs are not available.

The fair value of money market funds is valued by carrying amount, which approximates fair value. The fair values of the Association's mutual funds, common stock, and exchange traded funds have been determined from observable market quotations. The fair values of the Association's fixed income are valued on the market approach and the values have been provided by the Association's investment managers and custodian banks.

The following table presents the Association's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 437,402	$ -	$ -	$ 437,402
Fixed income				
Government and municipal bonds	-	2,950,924	-	2,950,924
Corporate bonds	-	1,181,349	-	1,181,349
Certificates of deposit	-	94,347	-	94,347
Mortgage Backed Securities	-	126,137	-	126,137
Mutual funds	213,448	-	-	213,448
US Government Securities	-	2,741,163	-	2,741,163
Exchange traded funds	299,330	-	-	299,330
Common stock	4,988,445	-	-	4,988,445
Asset backed securities	-	13,653	-	13,653
Total	$ 5,938,625	$ 7,107,573	$ -	$ 13,046,198

NOTE F – FAIR VALUE MEASUREMENT – continued

The table presented includes mutual funds held in the supplemental retirement plan which total $213,448 as of December 31, 2019.

NOTE G – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consisted of the following as of December 31, 2019:

Leasehold improvements	$	886,730
Furniture and equipment		505,644
		1,392,374
Accumulated depreciation		(299,788)
Property and Equipment, Net	$	1,092,586

Depreciation expense for the year ended December 31, 2019 totaled $69,940.

NOTE H – BOARD DESIGNATED NET ASSETS

During 2012, the Association established the Asphalt Pavement Economics Fund ("APEF") as an activity of the Association. APEF's goal is to establish a comprehensive approach to sponsor scientific research on key environment and occupational health issues, and develop proactive strategies concerning legal and regulatory issues of importance to the asphalt industry. The Pavement Economics Committee ("PEC") oversees the financial activity of APEF. In 2013, the Environmental Survival Fund ("ESF") was combined into the fund with PEC. The ESF sponsors scientific research and develops proactive strategies concerning legal and regulatory issues of importance to the asphalt industry. The net assets of the ESF and PEC are board designated and total $1,097,066 as of December 31, 2019. APEF will receive funding from companies, individuals and state asphalt pavement associations.

Pursuant to an agreement with the Auburn University Foundation, executed in August 2009, the Foundation has board designated net assets of $100,000 to defray costs related to raising funds for the NCAT endowment, as mentioned in the cooperative agreement.

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

Net assets summarized below are restricted for the following purposes as of December 31, 2019:

Asphalt Pavement Alliance	$	280,419
Asphalt Industry Scholarship Program		4,155,171
Professor Training Program		145,250
NAPA Care Program		887,363
Total	$	5,468,203

NOTE J – RETIREMENT PLAN

During 2005, the Association established a 401(k) retirement plan for which full-time employees of the Association upon completion of six months of service and attaining the age of 21 are eligible to participate and make salary deferral contributions. Pension expense for the year ended December 31, 2019 was $329,187.

NOTE K – DEFERRED COMPENSATION

The Association maintains a supplemental retirement benefit plan (the "Supplemental Plan"). The Supplemental Plan is an unqualified plan maintained for the purpose of providing deferred compensation for exempt employees of the Association. Assets of the Supplemental Plan are subject to the claims of the Association's general creditors in the event of insolvency. Similarly, Supplemental Plan participants and beneficiaries have no preferred claim, or any beneficial ownership interest in any assets of the Supplemental Plan. The Supplemental Plan assets and corresponding liability are recorded in the accompanying consolidated statements of financial position at fair value as other assets and non current liabilities.

NOTE L – CONCENTRATIONS OF CREDIT RISK

Balances in certain cash accounts occasionally exceed $250,000, the maximum amount insured by the Federal Deposit Insurance Corporation. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NOTE M – LEASES

Copier Lease

The Association leased certain office equipment with terms expiring in various years through 2021, however, these agreements were terminated in 2019.

Equipment Rental expense totaled $39,894 for the year ended December 31, 2019.

Office Lease

In May 2019, the Association signed an office lease agreement with a commencement date of September 1, 2019 and continuing for 131 months and ending on July 31, 2030. The lease required a security deposit of $145,392. Lease payments for each of the first twelve months following the commencement date are $18,174 per month, for which an abatement was given, and payments increase by 2.5% annually. The lease allows for two renewal terms of five years each.

NOTE M – LEASES – continued

Office Lease (continued)

Future minimum payments under the current office lease agreements is as follows for the years ending December 31:

2020	$	92,687
2021		225,403
2022		231,038
2023		236,814
2024		242,734
Thereafter		1,470,640
Total	$	2,499,316

Rental expense was $298,257 for the year ended December 31, 2019.

NOTE N – NCAT FACILITY LEASES

On December 2, 1999, the Industrial Development Board of the City of Auburn, Alabama ("the Board") issued $4.48 million of Facility Revenue Bonds ("the Bonds") dated November 1, 1999. The proceeds from the Bonds were used to construct a research facility (the Facility) in Auburn, Alabama for NCAT, and to acquire and install equipment and other personal property in the Facility. Payment of interest on the Bonds is due on May 1 and November 1 of each year, commencing May 1, 2000. Payments of principal began November 1, 2001. The Bonds are scheduled to mature on November 1, 2020.

Construction of the building commenced in December 1999, and the Facility was dedicated on October 23, 2000. In conjunction with the issuance of the Bonds, the Foundation entered into a non-cancellable operating lease agreement ("the Lease") for the Facility with the Board. During the lease term, the Foundation is required to pay as basic rent amounts equal to the Board's debt service payments on the Bonds. The lease became effective in December 1999 and expires November 1, 2020. The Foundation has unconditionally guaranteed the payment of the principal and interest (the debt service) on the Bonds. Therefore, the Foundation cannot terminate the Lease until the debt service on the Bonds has been fully paid. The Foundation cannot renew the Lease without the consent of the Board.

Simultaneously with the execution of the Lease, the Foundation agreed to sublease ("the Sublease") the Facility to Auburn University ("Auburn"). The basic sublease payments to the Foundation are equal to the basic rent payment under the Lease with the Board. The Sublease is treated as a net lease to the Foundation. Therefore, Auburn is additionally responsible for all operating costs, premiums, fees and obligations relating to the Facility except for structural and mechanical system repairs and maintenance. Auburn cannot assign Sublease without obtaining prior written consent of the Foundation. The Sublease was effective December 2, 1999 and expires November 1, 2020.

Future minimum lease payments under the Lease and receipts under the Sublease for the year ending December 31, 2020 total 419,490. For the year ended December 31, 2019, rent expense totaled $377,150 and sublease income was $377,150.

NOTE N – NCAT FACILITY LEASES – continued

Following the end of the second full twelve months of the Sublease, the Foundation increased the sublease payments by 3%. The increase is to cover estimated costs of any structural and mechanical systems repairs and maintenance.

NOTE O – JOINT VENTURE, WORLD OF ASPHALT

During 2000, the Association entered into the World of Asphalt Joint Venture with another joint venture, CONEXPO-CON/AGG Joint Venture. The purpose of the World of Asphalt Joint Venture is to administer an exposition two of every three years for the educational benefit of the asphalt industry and members of the parent organizations. NAPA has a 55% controlling interest in the World of Asphalt Joint Venture. The purpose of the World of Asphalt Joint Venture is to administer an exposition two of every three years for the educational benefit of the asphalt industry and members of the parent organizations. As a result of the NAPA's controlling interest, the consolidated financial statements of the Association include the financial information of the World of Asphalt Joint Venture. Change in net assets reported in the accompanying consolidated statement of activities includes a noncontrolling interest portion of $547,158 for the year ended December 31, 2019.

NOTE P – LIQUIDITY AND AVAILABILITY OF FUNDS

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Association strives to maintain liquid financial assets sufficient to cover six months of general expenditures. Financial assets in excess of daily cash requirements are invested in a brokered investment account which includes money market funds, common stock and fixed income investments.

The Association is substantially supported by member dues and meeting and exhibit revenues. As part of the Association's liquidity management, it has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Association's financial assets available with one year of the balance sheet date for general expenditure are as follows:

	2019
Financial assets:	
Cash, cash equivalents and restricted cash	8,922,261
Accounts receivable	202,303
Pledges receivable	90,400
Investments	12,832,750
Total Financial Investments	22,047,714
Less amounts not available for general purposes:	
Donor restricted amounts, reduced by amount of pledges receivable	(5,373,803)
Total Financial Assets Available to meet Cash needs for General Expenditures Within One Year	$ 16,673,911

NOTE Q – LETTER OF CREDIT

Under the terms of the Lease (Note N), the Foundation was required to obtain a letter of credit, not to exceed $4,745,932, for the benefit of the Trustee of the Facility Revenue Bonds as security for payment of the debt service on the Bonds. The Foundation is liable to the issuer for any amounts paid under the letter of credit.

During April 2010, the Foundation secured a three-year substitute letter of credit with BB&T to guarantee the facility bonds acquired through the Industrial Development Board of the City of Auburn. The cost of the substitute letter of credit was approximately $100,000. The letter of credit was renewed during April 2019.

NOTE R – RELATED PARTY

The Association provides the Foundation with administrative services at no charge to the Foundation. The Association believes that this amount is insignificant in relation to total expenses. The Foundation is related to NAPA by common management and administration personnel and selected board trustees. Throughout the year, transactions for one of the organizations may be funded by the other organization.

NOTE S – SUBSEQUENT EVENTS

Due to COVID -19, the organization conducted its Mid-year meeting virtually from its office In Greenbelt, MD in July 2020. In addition, the organization has cancelled two other events scheduled for the fall. It is expected that these changes will not materially impact the organization from a financial standpoint since these events are not considered major revenue producing activities. At this time, NAPA's annual meeting to be held in February 2021 in Orlando, FL has been changed to a virtual event. A decision about the World of Asphalt (March 2021 in Atlanta, GA) has not yet been made.

As required by the Subsequent Events topic of the FASB ASC, the Association evaluated subsequent events through October 27, 2020, which is the date these consolidated financial statements were available to be issued. Except as noted above, there were no additional events or transactions that were discovered during the evaluation that required additional recognition or disclosure.