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## Independent Auditors' Report

National Council Board  
National Council for State Authorization Reciprocity Agreements  
Boulder, Colorado

### Report On The Financial Statements

We have audited the accompanying financial statements of National Council for State Authorization Reciprocity Agreements (NC-SARA), a not-for-profit organization, which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities, and cash flows for the year 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.

### *Auditors' 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 audit 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 auditors' 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 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 NC-SARA as of June 30, 2017 and 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expense is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*RubinBrown LLP*

October 16, 2017

**NATIONAL COUNCIL FOR  
STATE AUTHORIZATION  
RECIPROCITY AGREEMENTS**

**Financial Statements with  
Accompanying Independent  
Auditors' Report**

**June 30, 2017 and 2016**

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**National Council for State Authorization Reciprocity Agreements**  
**Statement of Financial Position**  
**June 30, 2017 and 2016**

<b>ASSETS</b>			
<b>Assets</b>		<u><b>2017</b></u>	<u><b>2016</b></u>
Cash and cash equivalents	\$	2,437,041	779,918
Accounts Receivable		1,735	-
Prepaid Expenses:			
Regional Allocation		1,725,513	1,098,488
Other		13,190	-
Total Current Assets		<u>4,177,479</u>	<u>1,878,406</u>
Property and Equipment		<u>41,124</u>	<u>49,086</u>
<b>Total Assets</b>		<u><b>4,218,603</b></u>	<u><b>1,927,492</b></u>
 <b>LIABILITIES &amp; NET ASSETS</b>			
<b>Liabilities</b>			
Accounts Payable:			
Regional Distribution		300,000	533,584
Other		34,516	21,429
WICHE Loan Payable		-	877
Accrued Liabilities		46,286	29,038
Deferred Revenue		<u>2,912,114</u>	<u>1,828,387</u>
Total Current Liabilities		<u>3,292,916</u>	<u>2,413,315</u>
<b>Total Liabilities</b>		<u><b>3,292,916</b></u>	<u><b>2,413,315</b></u>
<b>Net Assets</b>			
Temporarily Restricted Net Assets		6,161	43,145
Unrestricted Net Assets		<u>919,526</u>	<u>(528,968)</u>
<b>Total Net Assets</b>		<u><b>925,687</b></u>	<u><b>(485,823)</b></u>
<b>Total Liabilities and Net Assets</b>	<b>\$</b>	<u><b>4,218,603</b></u>	<u><b>1,927,492</b></u>

See accompanying *Notes to Financial Statements*

**National Council for State Authorization Reciprocity Agreements**  
**Statement of Activities**  
**For the Years Ended June 30, 2017 and 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>2017 Total</b>	<b>2016 Total</b>
<b>Revenue and Support</b>				
Member Fees	\$ 4,309,774	\$ -	\$ 4,309,774	\$ 2,384,853
Contributions - Temporarily Restricted	-	-	-	43,145
Net Assets released from restrictions	36,984	(36,984)	-	-
<b>Total Revenue and Support . . . . .</b>	<b>4,346,758</b>	<b>(36,984)</b>	<b>4,309,774</b>	<b>2,427,998</b>
 <b>Expenses</b>				
Program Services	2,427,381	-	2,427,381	2,171,596
Management and General	470,883	-	470,883	420,357
 <b>Total Expenses . . . . .</b>	<b>2,898,264</b>	<b>-</b>	<b>2,898,264</b>	<b>2,591,953</b>
 <b>Increase (Decrease) in Net Assets</b>	 1,448,494	 (36,984)	 1,411,510	 (163,955)
 <b>Net Assets at Beginning of Year</b>	 (528,968)	 43,145	 (485,823)	 (321,868)
 <b>Net Assets at End of Year</b>	 <b>\$ 919,526</b>	 <b>\$ 6,161</b>	 <b>\$ 925,687</b>	 <b>\$ (485,823)</b>

See accompanying *Notes to Financial Statements*

**National Council for State Authorization Reciprocity Agreements**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Increase (Decrease) in Net Assets	\$ 1,411,510	\$ (163,955)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operations:		
Depreciation	7,962	198
Changes in assets and liabilities:		
Accounts Receivable	(1,735)	-
Prepaid Expenses-Regional Allocation	(627,025)	(712,922)
Prepaid Expenses-Other	(13,190)	-
Accounts Payable-Other	13,087	21,429
Accounts Payable-Regional Distribution	(233,584)	533,584
Accrued Liabilities	17,248	29,038
Deferred Revenue	1,083,727	1,225,938
Net cash provided by Operating Activities . . . . .	1,658,000	933,310
<b>Cash Flows from Investing Activities</b>		
Purchases of Equipment	-	(49,283)
Net cash used by Investing Activities . . . . .	-	(49,283)
<b>Cash Flows from Financing Activities</b>		
Net payments on WICHE Loan Payable	(877)	(104,109)
Net cash used by Financing Activities . . . . .	(877)	(104,109)
<b>Net increase in cash and cash equivalents . . . . .</b>	1,657,123	779,918
<b>Cash and Cash Equivalents at Beginning of Year</b>	779,918	-
<b>Cash and Cash Equivalents at End of Year . . . . .</b>	<b>\$ 2,437,041</b>	<b>\$ 779,918</b>

See accompanying *Notes to Financial Statements*

**NATIONAL COUNCIL FOR STATE AUTHORIZATION  
RECIPROcity AGREEMENTS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The National Council for State Authorization Reciprocity Agreements (NC-SARA) was organized in 2015 as a non-profit organization to promote and advance efforts to oversee the delivery of postsecondary distance education, and to ensure inter-regional alignment on core elements and requirements of State Authorization Reciprocity Agreements (SARA). In addition, NC-SARA will represent the full spectrum of stakeholders in the higher education community.

**New Entity Formation**

Effective April 22, 2015 NC-SARA was formed as a separate entity after operating for several years under another fiscal agent (Note 3). They kept a majority of their operations under the fiscal agent until June 30, 2016.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Financial Statement Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Cash and Cash Equivalents**

The Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or fewer to be cash and cash equivalents.

**Property and Equipment**

Furniture, fixtures, equipment and software are stated at cost and depreciated using the straight-line method with lives ranging from three to seven years. Expenditures for maintenance and repairs are charged to the appropriate expense accounts as incurred. Expenditures for renewals or betterments of \$2,500 or more that materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of assets retired or otherwise disposed of are eliminated from the accounts. The resulting gains or losses are included in the determination of change in net assets.

**Member Fee Revenue Recognition**

Institutions pay member fees each year on their anniversary date. Member fee revenues are recognized when earned. At the end of each year, member fees are pro-rated based on their anniversary date, and unearned member fees are recorded as deferred revenue.



**NATIONAL COUNCIL FOR STATE AUTHORIZATION  
RECIPROCIITY AGREEMENTS  
Notes to Financial Statements  
June 30, 2017 and 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Revenue**

Member Fees revenues billed before services are rendered are deferred and subsequently recognized in the period earned. The balance of deferred member fees at June 30, 2017 and 2016 was \$2,912,114 and \$1,828,387, respectively.

**Prepaid Expenses-Regional Allocation**

Deferred member fees which are attributable to its four regional members are recorded as prepaid expenses. The balance of prepaid expenses-regional allocation at June 30, 2017 and 2016 was \$1,725,513 and \$1,098,488, respectively.

**Uncertain Tax Positions**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on income derived from unrelated business activities. The Organization has determined that it does not have any income which is subject to tax on unrelated business income. The Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. The Organization's federal Exempt Organization Business Income Tax Return Form 990 prior to 2016 is subject to examination by the IRS, generally for three years after it was filed.

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets, depending on the absence or existence and nature of any donor restrictions.

Contributions to the Organization which are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are recognized. All other restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Functional Allocation of Expenses**

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

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NATIONAL COUNCIL FOR STATE AUTHORIZATION  
RECIPROCIITY AGREEMENTS  
Notes to Financial Statements  
June 30, 2017 and 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consists principally of cash and cash equivalents.

The Organization maintains its cash balances at one bank in Broomfield, Colorado. As of June 30, 2017 and 2016, respectively, the Organization had \$2,135,041 and \$509,615 of cash or cash equivalents in the financial institution in excess of amounts insured by agencies of the U.S. Government.

**Fair Value of Financial Instruments**

The Organization discloses fair value information about financial instruments when it is practicable to estimate that value. The carrying value of the Organization's cash, accounts receivable, prepaid expenses, accounts payable, loan payable, accrued bonuses and accrued vacation approximate their estimated fair values due to their short-term maturities.

**Restrictions on Net Assets**

Unrestricted net assets can generally be used in a manner to support the Organization's purpose and general activities.

Temporarily restricted net assets consist of net assets from contributions and other inflows that have donor-imposed stipulations that expire with either the passage of time or by actions of the Organization. Temporarily restricted net assets of \$6,161 and \$43,145 at June 30, 2017 and 2016 respectively, were restricted for future conferences and events.

Permanently restricted net assets consist of endowment fund assets received from the donors to be held indefinitely. The income from these assets is to be used in a manner as designated by the donors. The Organization had no permanently restricted net assets at June 30, 2017 and 2016.

**NOTE 2: PROPERTY AND EQUIPMENT**

Property and equipment consists of:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 49,284	\$ 49,284
Less: accumulated depreciation	(8,160)	(198)
Net Property and Equipment	\$ 41,124	\$ 49,086

Depreciation expense of \$7,962 and \$198 was recorded for the years ended June 30, 2017 and 2016, respectively.

**NATIONAL COUNCIL FOR STATE AUTHORIZATION  
RECIPROCIITY AGREEMENTS  
Notes to Financial Statements  
June 30, 2017 and 2016**

**NOTE 3: RELATED PARTY TRANSACTIONS**

NC-SARA operated under the fiscal umbrella of the Western Interstate Commission for Higher Education (WICHE) from its inception in July 2013 until June 30, 2016, the effective date of the separation agreement. WICHE is a non-profit organization and is one of the four regions that NC-SARA covers. WICHE has one board member representative on NC-SARA's 21-member board.

As its fiscal agent, WICHE provided some shared staff and office equipment to NC-SARA. WICHE was also the recipient of grant funds for NC-SARA's initial operations before NC-SARA received its own 501(c)(3) status.

WICHE received regional distributions from NC-SARA of \$566,733 and \$525,224 during the year ended June 30, 2017 and 2016, respectively and was owed \$75,000 and \$141,733 in regional distributions payable at June 30, 2017 and 2016, respectively.

**NOTE 4: SEPARATION AGREEMENT**

On August 30, 2016, but effective as of June 30, 2016, NC-SARA signed an agreement with WICHE to formally separate from their operational infrastructure. There were some common expenses of the two entities, such as shared staff, office supplies and rent, which WICHE still paid for and billed NC-SARA for these shared costs on a monthly basis. As part of the agreement, furniture and equipment purchased by WICHE and used by NC-SARA in the amount of \$37,432 was sold to NC-SARA. These items were included in the assets of NC-SARA as of June 30, 2017 and 2016 financial statements.

The balance of the loan payable to WICHE was \$877 as of June 30, 2016. Transactions subsequent to that date caused the loan balance to increase to \$382,968 as of July 31, 2016. The loan was repaid in full as of June 30, 2017.

**NOTE 5: SUPPLEMENTAL CASH FLOW INFORMATION**

The Organization made no interest or income tax payments for the years ended June 30, 2017 and 2016.

There were no non-cash transactions noted for the Organization for the years ended June 30, 2017 and 2016.

**NATIONAL COUNCIL FOR STATE AUTHORIZATION  
RECIPROCITY AGREEMENTS  
Notes to Financial Statements  
June 30, 2017 and 2016**

**NOTE 6: REGIONAL DISTRIBUTIONS PAYABLE**

According to NC-SARA’s board policy (of which regional representatives each hold a membership), the Organization distributes institutional fee revenue quarterly based upon the following formulas in the fiscal year ending June 30, 2017:

Base funding:	
Midwestern Higher Education Compact (MHEC)	16.0%
New England Board of Higher Education (NEBHE)	16.0%
Southern Regional Education Board (SREB)	16.0%
Western Interstate Commission for Higher Education	16.0%
National Council for State Authorization Reciprocity Agreements	<u>36.0%</u>
Total	<u>100.0%</u>

The regional distributions of institutional fee revenue have a maximum allocation of \$425,000 per region per year. As of June 30, 2017, the maximum allocation was reached for all regions for the fiscal year.

After NC-SARA repaid the loan to WICHE and established a positive cash flow for its operation as an independent entity, remaining funds will be allocated to the five SARA partners to begin the establishment of reserves. Reserves will eventually total \$215,000 for each of the regional compacts and, for NC-SARA, 50 percent of its annual operating budget. At least \$50,000 in reserve funding shall be provided to each SARA partner per quarter.

The regional distributions payable of \$300,000 at June 30, 2017 represents the reserves payment for the quarter ended June 30, 2017. The regional distributions payable of \$533,584 at June 30, 2016 represented the regions’ allocation of the institutional fees revenue collected in the quarter ended June 20, 2016 (exclusive of NC-SARA).

**NOTE 7: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 17, 2017, the date which the financial statements were available to be issued.

**National Council for State Authorization Reciprocity Agreements  
Supplemental Statement of Functional Expenses  
For the Years Ended June 30, 2017 and 2016**

	<u>Program</u>	<u>Mgt and General</u>	<u>2017 Total</u>	<u>2016 Total</u>
Credit Card Fees	\$ 43,957	\$ -	\$ 43,957	\$ 35,214
Allocation Expenses	1,772,975	-	1,772,975	1,418,489
Salaries	278,199	193,607	471,806	430,690
Taxes & Benefits	106,980	74,451	181,431	136,579
Professional Fees	29,707	137,796	167,503	20,530
Occupancy	35,179	32,273	67,452	62,378
Meetings & Conferences	127,359	-	127,359	32,978
Telephone & Internet	4,166	3,821	7,987	(3,165)
Computer Software & Maintenance	-	4,813	4,813	294,151
Indirect Costs	-	-	-	132,326
Other Expense	12,178	14,249	26,427	21,626
Depreciation Expense	4,153	3,809	7,962	198
Depreciaton charged by WICHE	-	-	-	4,089
Office Expenses	12,528	6,064	18,592	5,870
<b>Totals .....</b>	<b><u>\$2,427,381</u></b>	<b><u>\$ 470,883</u></b>	<b><u>\$2,898,264</u></b>	<b><u>\$2,591,953</u></b>