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## **International Code Council, Inc. and Subsidiaries**

**Consolidated Financial Statements and  
Supplementary Information**  
For the Years Ended December 31, 2011 and 2010

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



## **International Code Council, Inc. and Subsidiaries**

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Consolidated Financial Statements  
and Supplementary Information  
For the Years Ended December 31, 2011 and 2010

# International Code Council, Inc. and Subsidiaries

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## Independent Auditors' Report

Board of Directors  
International Code Council, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial position of International Code Council, Inc. and its Subsidiaries (the "Council") as of December 31, 2011 and 2010 and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Code Council, Inc. and its Subsidiaries as of December 31, 2011 and 2010 and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

April 19, 2012

## Consolidated Financial Statements

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# International Code Council, Inc. and Subsidiaries

## Consolidated Statements of Financial Position

December 31,	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,227,672	\$ 6,932,055
Restricted cash and cash equivalents	99,278	122,135
Investments	5,608,518	4,779,269
Accounts receivable, net of allowance for doubtful accounts of \$995,000 and \$1,015,000, respectively	4,544,311	5,726,827
Other receivables	34,647	383,940
Inventory, net	2,549,037	3,365,525
Prepaid expenses and deposits	552,279	520,579
<b>Total current assets</b>	<b>20,615,742</b>	<b>21,830,330</b>
<b>Property and Equipment</b>		
Land	1,180,865	1,180,865
Buildings	13,946,260	13,784,458
Building/leasehold improvements	1,224,273	1,216,298
Computers	9,753,226	8,074,354
Furniture and fixtures	2,793,495	2,996,330
Office equipment	3,127,178	2,970,304
Vehicles	73,184	73,183
Construction in progress	24,354	549,168
	32,122,835	30,844,960
Less: accumulated depreciation and amortization	(21,885,614)	(20,211,832)
<b>Net Property and Equipment</b>	<b>10,237,221</b>	<b>10,633,128</b>
<b>Intellectual Property and Other Intangible Assets, net</b>	<b>153,287</b>	<b>190,224</b>
<b>Total Assets</b>	<b>\$ 31,006,250</b>	<b>\$ 32,653,682</b>

# International Code Council, Inc. and Subsidiaries

## Consolidated Statements of Financial Position

<i>December 31,</i>	2011	2010
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,487,173	\$ 1,999,434
Accrued expenses	2,538,639	3,017,954
Deferred revenue	6,203,160	7,690,940
Customer deposits	855,281	1,263,427
Accrued employee benefits	3,340,603	3,197,213
<b>Total Liabilities</b>	<b>14,424,856</b>	<b>17,168,968</b>
<b>Commitments (Notes 6 and 7)</b>		
<b>Net Assets</b>		
Unrestricted	16,444,158	15,359,000
Temporarily restricted	137,236	125,714
<b>Total Net Assets</b>	<b>16,581,394</b>	<b>15,484,714</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 31,006,250</b>	<b>\$ 32,653,682</b>

*See accompanying notes to the consolidated financial statements.*

# International Code Council, Inc. and Subsidiaries

## Consolidated Statements of Activities

<i>Year ended December 31,</i>	Unrestricted	Temporarily Restricted	2011 Total	Unrestricted	Temporarily Restricted	2010 Total
<b>Support and Revenue</b>						
Program services	\$ 32,061,493	\$ -	\$ 32,061,493	\$ 30,637,608	\$ -	\$ 30,637,608
Product sales	25,672,227	-	25,672,227	25,621,260	-	25,621,260
Other income	1,350,165	-	1,350,165	1,001,882	-	1,001,882
Support and contributions	58,294	27,022	85,316	67,290	16,000	83,290
Interest income	201,237	-	201,237	233,610	-	233,610
Net assets released from restrictions	15,500	(15,500)	-	15,500	(15,500)	-
<b>Total revenue</b>	<b>59,358,916</b>	<b>11,522</b>	<b>59,370,438</b>	<b>57,577,150</b>	<b>500</b>	<b>57,577,650</b>
<b>Expenses</b>						
Programs/member services	42,363,327	-	42,363,327	39,916,859	-	39,916,859
Administrative/support services	11,236,305	-	11,236,305	11,528,494	-	11,528,494
Cost of product	4,841,165	-	4,841,165	6,856,981	-	6,856,981
<b>Total expenses</b>	<b>58,440,797</b>	<b>-</b>	<b>58,440,797</b>	<b>58,302,334</b>	<b>-</b>	<b>58,302,334</b>
<b>Increase (Decrease) in Net Assets Before</b>						
Unrealized Gain on Investments	918,119	11,522	929,641	(725,184)	500	(724,684)
Unrealized gain on investments	167,039	-	167,039	98,009	-	98,009
<b>Increase (Decrease) in Net Assets</b>	<b>1,085,158</b>	<b>11,522</b>	<b>1,096,680</b>	<b>(627,175)</b>	<b>500</b>	<b>(626,675)</b>
<b>Net Assets, beginning of year</b>	<b>15,359,000</b>	<b>125,714</b>	<b>15,484,714</b>	<b>15,986,175</b>	<b>125,214</b>	<b>16,111,389</b>
<b>Net Assets, end of year</b>	<b>\$ 16,444,158</b>	<b>\$ 137,236</b>	<b>\$ 16,581,394</b>	<b>\$ 15,359,000</b>	<b>\$ 125,714</b>	<b>\$ 15,484,714</b>

*See accompanying notes to the consolidated financial statements.*

# International Code Council, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

<i>Year ended December 31,</i>	2011	2010
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ 1,096,680	\$ (626,675)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	1,814,800	1,210,614
Provision for doubtful accounts	336,865	230,000
Write-off of obsolete inventory	889,088	399,491
Gain on disposal of fixed assets	(2,580)	(425)
Unrealized gain on investments	(167,039)	(98,009)
Changes in assets and liabilities		
Restricted cash and cash equivalents	22,857	(1,786)
Accounts receivable	845,651	(2,810,974)
Other receivables	349,293	(262,020)
Inventory	(72,600)	977,488
Prepaid expenses and deposits	(31,700)	(35,701)
Accounts payable	(512,261)	755,638
Accrued expenses	(479,315)	1,436,267
Deferred revenue	(1,487,780)	(662,282)
Customer deposits	(408,146)	442,325
Accrued employee benefits	143,390	139,092
<b>Net cash provided by operating activities</b>	<b>2,337,203</b>	<b>1,093,043</b>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(1,379,376)	(2,088,973)
Sales of investments	1,217,478	1,731,749
Purchases of investments	(1,879,688)	(2,907,259)
<b>Net cash used in investing activities</b>	<b>(2,041,586)</b>	<b>(3,264,483)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>295,617</b>	<b>(2,171,440)</b>
<b>Cash and Cash Equivalents, at beginning of year</b>	<b>6,932,055</b>	<b>9,103,495</b>
<b>Cash and Cash Equivalents, at end of year</b>	<b>\$ 7,227,672</b>	<b>\$ 6,932,055</b>

*See accompanying notes to the consolidated financial statements.*

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### 1. Summary of Accounting Policies

#### *Nature of Organization*

The International Code Council, Inc. (“ICC”) and Subsidiaries (the “Council”), a membership association dedicated to building safety and fire prevention, develops codes used to construct residential and commercial buildings, including homes and schools.

The Council was created in 2003 from the merger of three regional code councils: Building Officials and Code Administrators International, Southern Building Code Congress International and the International Conference of Building Officials. As a result of the merger, International Code Council, Inc. is the sole statutory member of ICC Evaluation Service, Inc. (“ICC-ES”), International Accreditation Services, Inc. (“IAS”) and International Code Council Foundation, Inc. (“ICCF”). Each entity has a separate board, distinct programs, and revenue stream.

Effective July 30, 2010, all assets and liabilities of ICC-ES were sold for \$7,400,000 to Evaluation Services LLC (“ES, LLC”) formerly known as ES Acquisition Co, LLC, a Delaware limited liability company formed on March 9, 2010. ES, LLC is a wholly-owned subsidiary of ICC who is also the sole member of ES, LLC. ICC-ES is inactive.

#### *Principles of Consolidation*

These consolidated financial statements include all of the accounts of the aforementioned entities. All material intercompany transactions have been eliminated.

#### *Concentration of Risk*

The Council maintains its primarily non-interest-bearing cash in bank deposit accounts which, at times, may exceed federally insured limits. The Council has not experienced any losses in such accounts. Management believes that the Council is not exposed to any significant credit risk on cash. All non-interest-bearing cash balances were fully insured at December 31, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution and the Council’s non-interest-bearing cash balances may again exceed federally insured limits.

#### *Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Council considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

#### *Investment Valuation*

The investments of the Council are reported at fair value. The fair value of a financial instrument is the amount 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 (the exit price).

*Mutual Funds* - Mutual funds’ fair values are determined by reference to the fund’s underlying assets which are principally marketable equity and fixed income securities. Shares held in mutual

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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funds that trade on national securities exchanges are valued at their trading price and are classified within Level 1 of the valuation hierarchy as described in Note 2.

*Government/Corporate Bonds* - Bonds consist of securities traded in markets that are not considered active and are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Securities that trade infrequently and therefore have little or no price transparency are valued using the Council's investment manager's best estimates. These investments are classified within Level 2 of the valuation hierarchy as described in Note 2.

### ***Accounts Receivable***

Accounts receivable arise during the normal course of business from the sale of publications as well as educational, accreditation and technical services. It is the policy of management to review the outstanding accounts receivable at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for uncollectible amounts. Membership dues are invoiced at the beginning of the respective membership period.

### ***Other Receivables***

Other receivables arise from grants earned assisting foreign governments in developing or improving building codes and royalties earned but not yet received.

### ***Inventory***

Inventory is stated at the lower of cost or market using the first-in, first-out method. The inventory consists of publications and other finished goods. Shipping and handling costs are reflected in cost of product. Publications printed internally include only the material cost to print the publication or manual. An inventory obsolescence reserve has been established to recognize that older publications may no longer be saleable. The obsolescence reserve was approximately \$1,530,000 and \$1,739,000 as of December 31, 2011 and 2010, respectively.

### ***Property and Equipment***

Building, equipment and land are carried at cost. Depreciation is computed on the straight-line method over 5 - 7 years for office and computer equipment, vehicles and furniture and fixtures; 20 years for building improvements; and 40 years for buildings. Amortization of building/leasehold improvements is provided using the straight-line method over the shorter of the useful life of the property being amortized or the term of the lease.

Maintenance, repairs and minor renewals are expensed as incurred. When fixed assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited or charged to operations.

During 2011, the Council listed its Whittier, California building for sale for \$5,500,000. The net book value of the building on the Council's balance sheet at December 31, 2011 is approximately \$936,000.

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### ***Intangible Assets***

Intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated useful lives of 15 years. Management represents this method which approximates the fair value of the asset.

On an ongoing basis, the Council reviews their definite-lived intangibles and other long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Council recognizes impairment losses if the undiscounted cash flows expected to be generated by the assets are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of December 31, 2011 and 2010, management believes that no such impairments existed.

### ***Net Assets***

ICC, ES, LLC, ICC-ES, and IAS report information regarding its financial position and activities according to one class of net assets: unrestricted.

ICCF reports information regarding its financial position and activities according to two classes of net assets: unrestricted and temporarily restricted.

Unrestricted net assets include resources which are not subject to donor-imposed restrictions plus those resources for which donor-imposed restrictions have been satisfied. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Satisfaction of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) is reported as a reclassification from temporarily restricted net assets to unrestricted net assets. Where the stipulation of the temporarily restricted net assets is fulfilled in the same year as the original contribution, the contribution is recorded as unrestricted revenue. At December 31, 2011 and 2010, temporarily restricted net assets were primarily related to donations designated for scholarships. Amounts are released from restriction as the funds are spent toward the specific-restricted purpose or the time period has elapsed. Permanently restricted net assets are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently. The Council does not have any permanently restricted net assets.

### ***Revenue Recognition***

Revenues are recognized when earned. Annual member dues are earned on a pro rata basis over the period of the membership term. Fees for service activities are earned at the time the services are performed and billed. Monies received for activities that have not yet taken place are recognized as deferred revenue.

ES, LLC and ICC-ES have three primary sources of evaluation revenue: new report, report renewals with changes and report renewals with no changes. All reports require a deposit prior to commencing an evaluation service. Many customers submit deposits based on the total proposal or include anticipated renewal fees in their payment. As a result, ES, LLC and ICC-ES receive monies

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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in excess of initial invoices and reflect these monies as customer deposits on the statements of financial position.

ES, LLC and ICC-ES commence recognition of revenue when the report progresses to the engineering review stage and continues to be earned ratably over the report preparation period ranging from five to sixteen months. For new reports and report renewals with changes, ES, LLC and ICC-ES hold back 25% of the project's fees until the report is released. Deferred revenue consists of billings for evaluation services which have not been completed as of the financial statement date. Fees for further studies of an existing evaluation are treated as income in the period the services are rendered.

Entities that are accredited by IAS pay a fee to maintain and renew the accreditation. Accreditation renewals last from 1 to 3 years and IAS recognizes income over the life of the accreditation. Any fees received in advance of the renewal period are recorded as deferred revenue to be recognized over the future appropriate periods.

### ***Investment Income***

Realized and unrealized gains and losses from changes in market values are reflected in the statements of activities.

Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Interest income is recorded as earned on an accrual basis.

### ***Income Taxes***

ICC and its subsidiaries are not-for-profit organizations that are exempt from income taxes. IAS and ICC-ES are exempt under Section 501(c)(4) of the Internal Revenue Code ("IRC"). ICC and ES, LLC are exempt under Section 501(c)(6) of the IRC and ICCF is exempt under Section 501(c)(3) of the IRC. Accordingly, no provision for income taxes has been reflected in the consolidated financial statements. Under comparable state law, ICC and its subsidiaries are also tax exempt.

### ***Uncertainty in Income Taxes***

The Council follows the provisions of Accounting Standards Codification ("ASC") 740-10-25, "Income Taxes," which requires that realization of an uncertain income tax position must be "more likely than not" (i.e. greater than 50% likelihood of receiving benefit) before it can be recognized in the financial statements. Further, ASC 740-10-25 prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by the tax authorities having all relevant information and applying current conventions. ASC 740-10-25 also clarifies the financial statement classification of tax related penalties and interest and sets forth disclosures regarding unrecognized tax benefits. The Council does not believe there are any unrecognized tax benefits that should be recorded. No interest or penalties were included in the consolidated statements of activities for the years ended December 31, 2011 or 2010. Tax years going back to 2008 remain open to examination. Should the Council need to accrue interest or penalties on uncertain tax positions, it would recognize the interest as interest expense and the penalties as other expenses.

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *Functional Allocation of Expenses*

In the consolidated statements of activities, salaries and related expenses are first charged to the various programs and supporting services on the basis of actual expense. Expenses are then allocated based on headcount, percentage of revenue or actual usage to programs and administrative categories.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions affecting the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates.

### *Reclassifications*

Certain reclassifications have been made to the 2010 amounts to conform to the 2011 classifications.

## **2. Investments**

In accordance with ASC 820-10 “*Fair Value Measurements*,” fair value is defined as the price that the Council would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820-10 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based upon market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity’s own assumptions of what market participants would use in pricing the asset or liability based upon the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 - Quoted prices in active markets for identical investments,
- Level 2 - Other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.),
- Level 3 - Significant unobservable inputs (including the entity’s own assumptions in determining the fair value of investments).

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

Investments consist of the following:

	Investment Assets at Fair Value as of December 31, 2011			Total
	Level 1	Level 2	Level 3	
<b>Mutual Funds</b>				
Ishares Iboxx	\$ 2,793,815	\$ -	\$ -	\$ 2,793,815
Ishares Barclays	937,999	-	-	937,999
Vanguard Short-Term	1,210,957	-	-	1,210,957
PIMCO Total Return Fund	567,730	-	-	567,730
<b>Total Mutual Funds</b>	<b>5,510,501</b>	<b>-</b>	<b>-</b>	<b>5,510,501</b>
<b>Bonds</b>				
Corporate Bond - General Electric	-	98,017	-	98,017
<b>Total Investments at Fair Value</b>	<b>\$ 5,510,501</b>	<b>\$ 98,017</b>	<b>\$ -</b>	<b>\$ 5,608,518</b>

	Investment Assets at Fair Value as of December 31, 2010			Total
	Level 1	Level 2	Level 3	
<b>Mutual Funds</b>				
Ishares Iboxx	\$ 2,445,725	\$ -	\$ -	\$ 2,445,725
Ishares Barclays	480,615	-	-	480,615
PIMCO Total Return Fund	755,165	-	-	755,165
<b>Total Mutual Funds</b>	<b>3,681,505</b>	<b>-</b>	<b>-</b>	<b>3,681,505</b>
<b>Bonds</b>				
Government Bond - FHLMC	-	1,004,430	-	1,004,430
Corporate Bond - General Electric	-	93,334	-	93,334
<b>Total Bonds</b>	<b>-</b>	<b>1,097,764</b>	<b>-</b>	<b>1,097,764</b>
<b>Total Investments at Fair Value</b>	<b>\$ 3,681,505</b>	<b>\$ 1,097,764</b>	<b>\$ -</b>	<b>\$ 4,779,269</b>

### 3. Intellectual Property and Other Intangible Assets, Net

Intangible assets include intellectual property, copyrights and trademarks associated with the base international codes. Intangible assets consist of the following:

<i>December 31,</i>	2011	2010
Patents and trademarks	\$ 493,439	\$ 493,439
Intellectual property	50,000	50,000
Copyrights	22,386	22,386
Other	5,000	5,000
	<b>570,825</b>	<b>570,825</b>
Less accumulated amortization	(417,538)	(380,601)
<b>Intangible assets, net</b>	<b>\$ 153,287</b>	<b>\$ 190,224</b>

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### 4. Accrued Employee Benefits

The Council permits employees to accumulate and carryforward vacation as well as sick leave. The Council's policy limits the accumulation of sick leave to 180 days and limits vacation pay to twice the employee's annual vacation accrual. The amount of existing vacation and sick leave remaining as of December 31, 2011 and 2010 is approximately \$3,141,000 and \$3,134,000, respectively.

### 5. Retirement Plans

The International Conference of Building Officials (see Note 1) had a deferred compensation plan which came with its employees in the merger. Per the plan agreement, until distribution is made, an annual increase of 8% is credited to the account for earnings. The plan assets are maintained with the general assets of the Council. As of December 31, 2011 and 2010, the balance in the deferred compensation liability was approximately \$332,893 and \$372,166, respectively, included in accrued expenses in the consolidated statements of financial position. No compensation has been deferred into the plan since 1991.

During 2010, the Council's upper management deferred a portion of their income, which resulted in a liability of approximately \$194,000 as of December 31, 2010, included in accrued expenses on the statement of financial position. The total interest expense for the year ended December 31, 2010 was approximately \$31,000. The liability was paid in 2011.

A contributory profit sharing plan has been adopted by the Council for all of its eligible employees. Annual contributions to the trust are payable at the discretion of the Council up to a maximum amount allowable by the Internal Revenue Service. The plan also has a 401(k) provision that allows the employees to contribute to the plan. Contributions by the Council to the plan for the years ended December 31, 2011 and 2010 totaled approximately \$359,000 and \$459,000, respectively.

### 6. Lease Obligations

As of December 31, 2011, the Council has entered into two principal operating leases for office space located in Washington, D.C. and a distribution warehouse in Lenexa, Kansas. The leases contain rent escalation clauses and also require payment for real estate taxes as well as other operating expenses and include renewal option clauses. Additionally, there are eight additional leases for office space in other states. Future minimum rental payments required under operating real property leases with non-cancelable lease terms are as follows:

<i>Year ending December 31,</i>	Amount
2012	\$ 961,781
2013	984,476
2014	880,039
2015	660,144
2016	580,834
	<hr/>
	\$ 4,067,274

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# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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Building, office and warehouse rent including taxes, maintenance and insurance for the years ended December 31, 2011 and 2010 was approximately \$1,347,000 and \$1,166,000, respectively.

As of December 31, 2010, the Council had also entered into numerous operating leases for equipment located throughout the United States. Future minimum rental payments required under operating equipment leases with noncancelable lease terms are as follows:

<i>Year ending December 31,</i>	<i>Amount</i>
2012	\$ 178,495
2013	166,612
2014	165,425
2015	12,721
	<hr/>
	\$ 523,253

Equipment rental expense for the years ended December 31, 2011 and 2010 was approximately \$273,000 and \$203,000, respectively.

### 7. Commitments

The Council has entered into numerous agreements with hotels and meeting facilities for their seminars and conferences. These agreements often include commitments for use of hotel space. As of December 31, 2011, the Council was responsible for commitments in amounts of approximately \$142,159 and \$254,641 that relate to the Spring Hearings Dallas and Annual Conference Portland, respectively.

During 2011 and 2010, Federal Alliance for Safe Homes, Inc. ("Flash, Inc.") was paid \$150,000 in fees and reimbursed \$19,825 and \$94,860 for expenses incurred, respectively. These expenses are included in outside services on the consolidated statements of activities. Additionally, the Council is committed to pay Flash, Inc. \$12,500 per month through December 31, 2012.

One former executive of the Council receives payment under an employment contract that was approved by the Board of Directors at the time of his departure.

Under terms of the agreements, the former executive will receive the remaining payment of \$90,000 in 2012.

During 2009, the Council entered into an agreement with T3 Information Systems that expired on April 30, 2011, but was extended through July 31, 2011, to design, configure and implement all modules related to the Microsoft Dynamics Great Plains application to meet the Council's business objectives relating to budgeting, accounting and reporting. During 2011 and 2010, the Council paid T3 Information Systems approximately \$634,000 and \$562,000, respectively; \$634,000 and \$549,000 of these amounts were capitalized in computers and software and construction in progress, respectively on the consolidated statements of financial position. The project is essentially complete.

During 2009, the Council entered into an agreement with Webteks to perform a thorough review and analysis of the creative images and page layouts of the SharePoint platform-based website for

# International Code Council, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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the Council. The Council incurred approximately \$36,000 and \$750,000 of costs related to this project for the years ended December 31, 2011 and 2010, respectively; all costs were capitalized.

### 8. Related-Party Transactions

Some board members act as training instructors or subcontractors to ICC and are paid a fee for their services. Fees paid to these board members during 2011 and 2010 amounted to approximately \$24,000 and \$20,000, respectively.

IAS also compensated two of its board directors approximately \$0 and \$18,000 for services rendered for the years ended December 31, 2011 and 2010, respectively.

### 9. Line of Credit

On January 6, 2011, the Council refinanced its line of credit with its existing bank. Maximum availability on the line of credit is \$3,000,000 with a maturity date of March 1, 2013. The interest rate on the line of credit is at adjusted LIBOR, as defined in the line of credit agreement as LIBOR plus 1.75% and an unused fee of 0.05%. The line of credit is collateralized by substantially all of the Council's Illinois assets and requires adherence to certain financial covenants. The Council was in compliance with these covenants as of December 31, 2011. At December 31, 2011 and 2010, there were no amounts outstanding on the line of credit.

### 10. Subsequent Events

The Council evaluated subsequent events through April 19, 2012, the date the financial statements were available to be issued. No material subsequent events have occurred through April 19, 2012 that required recognition or disclosure in these financial statements.

## Supplementary Information

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## Independent Auditors' Report on Supplementary Information

Our audits of the basic financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements taken as a whole. The supplementary information in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

BDO USA, LLP

April 19, 2012

# International Code Council, Inc. and Subsidiaries

## Consolidating Statement of Financial Position

December 31,	ICC	ES LLC	ICC-ES	IAS	ICCF	Eliminations	2011 Total
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 4,901,539	\$ (60,548)	\$ -	\$ 1,528,364	\$ 858,317	\$ -	\$ 7,227,672
Restricted cash and cash equivalents	-	-	-	-	99,278	-	99,278
Investments	2,128,200	2,049,232	-	1,149,621	281,465	-	5,608,518
Accounts receivable, net	3,419,808	812,580	-	299,923	12,000	-	4,544,311
Other receivables	34,647	-	-	-	-	-	34,647
Due from affiliate	7,065,664	10,749,595	5,669,922	376,087	-	(23,861,268)	-
Inventory	2,549,037	-	-	-	-	-	2,549,037
Prepaid expenses and deposits	546,233	2,337	-	3,709	-	-	552,279
<b>Total Current Assets</b>	<b>20,645,128</b>	<b>13,553,196</b>	<b>5,669,922</b>	<b>3,357,704</b>	<b>1,251,060</b>	<b>(23,861,268)</b>	<b>20,615,742</b>
<b>Property and Equipment</b>							
Land	539,828	-	-	-	641,037	-	1,180,865
Buildings	10,649,219	-	-	-	3,297,041	-	13,946,260
Building/leasehold improvements	308,875	131,100	-	-	784,298	-	1,224,273
Computers	9,753,226	-	-	-	-	-	9,753,226
Furniture and fixtures	2,793,495	-	-	-	-	-	2,793,495
Office equipment	3,034,476	92,702	-	-	-	-	3,127,178
Vehicles	73,184	-	-	-	-	-	73,184
Construction in progress	24,354	-	-	-	-	-	24,354
	27,176,657	223,802	-	-	4,722,376	-	32,122,835
Less: accumulated depreciation	(18,453,658)	(206,620)	-	-	(3,225,336)	-	(21,885,614)
<b>Net Property and Equipment</b>	<b>8,722,999</b>	<b>17,182</b>	<b>-</b>	<b>-</b>	<b>1,497,040</b>	<b>-</b>	<b>10,237,221</b>
<b>Intellectual Property and Other Intangible Assets, net</b>	<b>153,287</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,287</b>
<b>Total Assets</b>	<b>\$ 29,521,414</b>	<b>\$ 13,570,378</b>	<b>\$ 5,669,922</b>	<b>\$ 3,357,704</b>	<b>\$ 2,748,100</b>	<b>\$ (23,861,268)</b>	<b>\$ 31,006,250</b>
<b>Liabilities and Net Assets</b>							
<b>Liabilities</b>							
Accounts payable	\$ 1,310,848	\$ 89,133	\$ -	\$ 49,774	\$ 37,418	\$ -	\$ 1,487,173
Due to affiliate	16,131,806	7,712,011	50	-	17,401	(23,861,268)	-
Accrued expenses	2,318,927	219,712	-	-	-	-	2,538,639
Deferred revenue	2,067,569	3,495,297	-	640,294	-	-	6,203,160
Customer deposits	213,473	641,808	-	-	-	-	855,281
Accrued employee benefits	3,340,603	-	-	-	-	-	3,340,603
<b>Total Liabilities</b>	<b>25,383,226</b>	<b>12,157,961</b>	<b>50</b>	<b>690,068</b>	<b>54,819</b>	<b>(23,861,268)</b>	<b>14,424,856</b>
<b>Net Assets</b>							
Unrestricted	4,138,188	1,412,417	5,669,872	2,667,636	2,556,045	-	16,444,158
Temporarily restricted	-	-	-	-	137,236	-	137,236
<b>Total Net Assets</b>	<b>4,138,188</b>	<b>1,412,417</b>	<b>5,669,872</b>	<b>2,667,636</b>	<b>2,693,281</b>	<b>-</b>	<b>16,581,394</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 29,521,414</b>	<b>\$ 13,570,378</b>	<b>\$ 5,669,922</b>	<b>\$ 3,357,704</b>	<b>\$ 2,748,100</b>	<b>\$ (23,861,268)</b>	<b>\$ 31,006,250</b>

# International Code Council, Inc. and Subsidiaries

## Consolidating Statement of Activities

<i>Year ended December 31, 2011</i>	ICC	ES LLC	ICC-ES	IAS	ICCF	Eliminations	2011 Total
<b>Support and Revenue</b>							
Program services	\$ 13,460,839	\$ 15,390,770	\$ -	\$ 3,352,509	\$ 91,520	\$ (234,145)	\$ 32,061,493
Product sales	25,672,227	-	-	-	-	-	25,672,227
Other income	1,289,458	-	-	-	471,215	(410,508)	1,350,165
Professional service agreement	498,300	-	-	-	-	(498,300)	-
Related party operating grant income	1,960,000	-	-	-	-	(1,960,000)	-
Support and contributions	-	-	-	-	85,316	-	85,316
Interest income	57,618	84,040	156,500	48,034	11,545	(156,500)	201,237
<b>Total revenue</b>	<b>42,938,442</b>	<b>15,474,810</b>	<b>156,500</b>	<b>3,400,543</b>	<b>659,596</b>	<b>(3,259,453)</b>	<b>59,370,438</b>
<b>Expenses</b>							
Programs/member services	31,126,396	8,515,872	-	2,690,667	264,537	(234,145)	42,363,327
Administrative/support services	11,415,079	156,500	1,960,000	486,300	243,734	(3,025,308)	11,236,305
Cost of product	4,841,165	-	-	-	-	-	4,841,165
<b>Total expenses</b>	<b>47,382,640</b>	<b>8,672,372</b>	<b>1,960,000</b>	<b>3,176,967</b>	<b>508,271</b>	<b>(3,259,453)</b>	<b>58,440,797</b>
<b>(Decrease) Increase in Net Assets Before Unrealized</b>							
Gain on Investments	(4,444,198)	6,802,438	(1,803,500)	223,576	151,325	-	929,641
Unrealized gain on investments	32,515	76,584	-	47,657	10,283	-	167,039
<b>(Decrease) Increase in Net Assets</b>	<b>(4,411,683)</b>	<b>6,879,022</b>	<b>(1,803,500)</b>	<b>271,233</b>	<b>161,608</b>	<b>-</b>	<b>1,096,680</b>
<b>Net Assets, beginning of year</b>	<b>8,549,871</b>	<b>(5,466,605)</b>	<b>7,473,372</b>	<b>2,396,403</b>	<b>2,531,673</b>	<b>-</b>	<b>15,484,714</b>
<b>Net Assets, end of year</b>	<b>\$ 4,138,188</b>	<b>\$ 1,412,417</b>	<b>\$ 5,669,872</b>	<b>\$ 2,667,636</b>	<b>\$ 2,693,281</b>	<b>\$ -</b>	<b>\$ 16,581,394</b>

# International Code Council, Inc. and Subsidiaries

## Consolidated Schedules of Program Services

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<i>Year ended December 31,</i>	2011	2010
<b>Program Services</b>		
Membership dues	\$ 3,797,285	\$ 3,912,917
Certification	3,596,920	3,873,179
Training and education	2,490,939	2,862,893
Architectural and engineering	347,512	345,741
Conferences	493,980	466,348
Report and reexamination fees	21,334,857	19,176,530
<b>Total Program Services</b>	<b>\$ 32,061,493</b>	<b>\$ 30,637,608</b>

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# International Code Council, Inc. and Subsidiaries

## Consolidated Schedules of Product Sales

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<i>Year ended December 31,</i>	2011	2010
<b>Product Sales</b>		
Code publications		
Adoptable	\$ 17,668,077	\$ 17,173,715
Directly related to adoptable	6,018,745	4,270,697
Non-adoptable	1,854,006	3,962,639
	<hr/>	<hr/>
	25,540,828	25,407,051
Advertising	131,399	214,209
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<b>Total Product Sales</b>	\$ 25,672,227	\$ 25,621,260

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# International Code Council, Inc. and Subsidiaries

## Consolidated Schedules of Other Income

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<i>Year ended December 31,</i>	2011		2010	
<b>Other Income</b>				
Rental income	\$	360,725	\$	410,037
Royalties		907,482		578,135
Miscellaneous		79,378		13,285
Gain on disposition of assets		2,580		425
<b>Total Other Income</b>	\$	1,350,165	\$	1,001,882

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# International Code Council, Inc. and Subsidiaries

## Consolidated Schedules of Functional Expenses

	Total Administrative and Support Services				Total Administrative and Support Services			
	2011		2010		2011		2010	
	Member Services	Information Technology	Management General	Organization Total	Member Services	Information Technology	Management General	Organization Total
Salaries	\$ 18,707,755	\$ 753,861	\$ 4,393,105	\$ 23,854,721	\$ 17,788,724	\$ 743,284	\$ 3,889,718	\$ 22,421,726
Outside services	6,454,586	1,138,819	855,774	8,449,179	5,600,840	908,584	977,110	7,486,534
Employee benefits	3,918,311	153,259	837,819	4,909,389	3,514,989	137,075	661,637	4,313,701
Meetings and travel	2,740,097	122,525	501,237	3,363,859	2,506,839	81,444	389,120	2,977,403
Depreciation and amortization	1,478,282	66,102	270,417	1,814,801	1,024,981	32,129	153,504	1,210,614
Payroll taxes	1,277,223	50,986	250,914	1,579,123	1,363,932	56,694	234,325	1,654,951
Travel	1,093,660	13,177	363,188	1,470,025	1,007,653	30,722	539,685	1,578,060
Rent	1,096,966	49,051	200,665	1,346,682	960,485	35,574	169,962	1,166,021
Marketing	1,005,203	-	186,134	1,191,337	1,359,763	-	185,759	1,545,522
Legal and accounting	753,032	33,672	137,750	924,454	505,089	18,707	89,378	613,174
Telephone	624,905	27,943	114,312	767,160	600,918	22,256	106,335	729,509
Taxes, licenses and fees	485,795	21,723	88,865	596,383	658,228	24,379	116,477	799,084
Equipment rental and maintenance	439,238	19,641	80,348	539,227	992,445	36,757	175,618	1,204,820
Bank/credit card fees	373,143	14,994	85,827	473,964	412,377	13,780	65,837	491,994
Building maintenance	366,008	16,366	66,953	449,327	450,834	16,698	79,777	547,309
Insurance	279,230	12,486	51,079	342,795	317,352	11,754	56,157	385,263
Bad debt	336,865	-	-	336,865	230,000	-	-	230,000
Utilities	245,565	10,981	44,920	301,466	266,571	9,874	47,170	323,615
Dues and subscriptions	221,583	1,095	17,004	239,682	150,713	-	40,568	191,281
Postage and shipping	202,123	9,038	36,974	248,135	(75,694)	(2,803)	(13,394)	(91,891)
Office supplies	174,917	7,822	31,997	214,736	170,248	6,305	30,126	206,679
Printing	41,424	121	9,539	51,084	55,072	-	136,611	191,683
Interest expense	20,105	899	3,678	24,682	27,782	496	2,370	30,648
Scholarships and grants paid	15,500	-	-	15,500	15,500	-	-	15,500
Sales tax	-	-	-	-	-	-	-	880,000
Miscellaneous	11,811	-	83,245	95,056	11,218	-	330,935	342,153
<b>Totals</b>	<b>\$ 42,363,327</b>	<b>\$ 2,524,561</b>	<b>\$ 8,711,744</b>	<b>\$ 53,599,632</b>	<b>\$ 39,916,859</b>	<b>\$ 2,183,709</b>	<b>\$ 9,344,785</b>	<b>\$ 51,445,353</b>