

**WASHINGTON SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

Audited Consolidated Financial Statements

May 31, 2016 and 2015

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

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## Independent Auditor's Report

To the Board of Directors and Trustees  
Washington Society of Certified Public Accountants,  
Washington CPA Foundation and Washington CPA/PAC  
Bellevue, Washington

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Washington Society of Certified Public Accountants (the "WSCPAC"), the Washington CPA Foundation (the "Foundation"), and the Washington CPA/PAC (the "PAC") (collectively, the "Society") which comprise the consolidated statements of financial position as of May 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 Society'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 Society'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.

***Auditor's Responsibility (Continued)***


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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Washington Society of Certified Public Accountants and related entities as of May 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position as of May 31, 2016 and activities for the year ended May 31, 2016 on pages 16 and 17 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



**JOHNSON, STONE & PAGANO, P.S.**

December 13, 2016

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 832,381	\$ 761,256
Investments	4,991,136	5,233,409
Accounts receivable	115,820	68,294
Prepaid expenses	169,216	159,385
<b>Total Current Assets</b>	<u>6,108,553</u>	<u>6,222,344</u>
<b>NONCURRENT ASSETS</b>		
Endowment investments	983,094	131,092
Property and equipment, net	863,488	890,618
<b>Total Noncurrent Assets</b>	<u>1,846,582</u>	<u>1,021,710</u>
<b>OTHER ASSETS</b>		
Investments held under agency contract	<u>1,396,373</u>	
<b>TOTAL ASSETS</b>	<u>\$ 9,351,508</u>	<u>\$ 7,244,054</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 592,431	\$ 771,562
Deferred revenue - continuing professional education programs	467,725	466,710
Deferred revenue - membership dues	1,515,571	1,324,675
Deferred revenue - other	7,975	6,091
<b>Total Current Liabilities</b>	<u>2,583,702</u>	<u>2,569,038</u>
<b>OTHER LIABILITIES</b>		
Obligation under agency contract	<u>1,396,373</u>	
<b>Total Liabilities</b>	<u>3,980,075</u>	<u>2,569,038</u>
<b>NET ASSETS</b>		
Unrestricted - Society	3,758,405	3,915,733
Unrestricted - Foundation	480,070	463,548
<b>Total Unrestricted Net Assets</b>	<u>4,238,475</u>	<u>4,379,281</u>
Temporarily restricted (Note 2)	1,032,958	195,735
Permanently restricted	100,000	100,000
<b>Total Net Assets</b>	<u>5,371,433</u>	<u>4,675,016</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,351,508</u>	<u>\$ 7,244,054</u>

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

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Years Ended May 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>								
Education programs	\$ 2,715,229			\$ 2,715,229	\$ 2,965,401			\$ 2,965,401
Membership dues	1,875,963			1,875,963	1,820,007			1,820,007
Peer review fees	193,678			193,678	208,212			208,212
Interest and dividend income	101,255	\$ 2,354		103,609	85,123	\$ 12		85,135
Networking events	60,337			60,337	63,639			63,639
Advertising	21,286			21,286	20,689			20,689
Contributions	66,214	834,475		900,689	101,033			101,033
Other	125,757			125,757	106,185			106,185
Net assets released from restrictions	16,601	(16,601)			58,409	(58,409)		
<b>Total Revenue</b>	<b>5,176,320</b>	<b>820,228</b>		<b>5,996,548</b>	<b>5,428,698</b>	<b>(58,397)</b>		<b>5,370,301</b>
<b>EXPENSES</b>								
Program services								
Education programs	2,565,968			2,565,968	2,765,284			2,765,284
Member services programs	1,110,558			1,110,558	1,089,120			1,089,120
Peer review expenses	203,993			203,993	182,096			182,096
Networking events	55,820			55,820	64,071			64,071
Scholarships, grants and education programs	55,000			55,000	64,000			64,000
PAC expenses	82,169			82,169	165,214			165,214
<b>Total Program Expenses</b>	<b>4,073,508</b>			<b>4,073,508</b>	<b>4,329,785</b>			<b>4,329,785</b>
General and administrative	1,103,162			1,103,162	1,074,397			1,074,397
<b>Total Expenses</b>	<b>5,176,670</b>			<b>5,176,670</b>	<b>5,404,182</b>			<b>5,404,182</b>
<b>Change in Net Assets before Gain on Investments</b>	<b>(350)</b>	<b>820,228</b>		<b>819,878</b>	<b>24,516</b>	<b>(58,397)</b>		<b>(33,881)</b>
Gain (loss) on investments	(140,456)	16,995		(123,461)	195,111	5,105		200,216
<b>Change in Net Assets</b>	<b>(140,806)</b>	<b>837,223</b>		<b>696,417</b>	<b>219,627</b>	<b>(53,292)</b>		<b>166,335</b>
<b>Net Assets at Beginning of Year</b>	<b>4,379,281</b>	<b>195,735</b>	<b>\$ 100,000</b>	<b>4,675,016</b>	<b>4,159,654</b>	<b>249,027</b>	<b>\$ 100,000</b>	<b>4,508,681</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 4,238,475</b>	<b>\$ 1,032,958</b>	<b>\$ 100,000</b>	<b>\$ 5,371,433</b>	<b>\$ 4,379,281</b>	<b>\$ 195,735</b>	<b>\$ 100,000</b>	<b>\$ 4,675,016</b>

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

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from education programs	\$ 2,677,168	\$ 3,057,553
Cash received from membership dues	2,066,858	2,003,012
Cash received from other sources	1,295,182	474,038
Cash paid to employees	(2,313,579)	(2,167,541)
Cash paid to vendors and others	(2,749,288)	(3,027,405)
Loss on disposal of assets		3,314
Interest and dividends received	<u>103,609</u>	<u>85,135</u>
<b>Net Cash Flow Provided by Operating Activities</b>	1,079,950	428,106
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,341,214	87
Purchase of investments	(2,249,404)	(566,588)
Purchases of property and equipment	<u>(100,635)</u>	<u>(15,296)</u>
<b>Net Cash Flow Used by Investing Activities</b>	<u>(1,008,825)</u>	<u>(581,797)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	71,125	(153,691)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>761,256</u>	<u>914,947</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 832,381</u>	<u>\$ 761,256</u>

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



**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ 696,417	\$ 166,335
Adjustments to reconcile change in net assets to net cash flow provided by operating activities		
Depreciation	127,765	127,134
Loss on disposition of computer equipment		3,314
Loss (gain) on investments	123,461	(200,216)
Changes in operating assets and liabilities		
Accounts receivable	(47,526)	(36,119)
Prepaid expenses	(9,831)	(12,455)
Accounts payable and accrued expenses	(4,131)	94,556
Deferred revenue	<u>193,795</u>	<u>285,557</u>
<b>NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,079,950</u>	<u>\$ 428,106</u>

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

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

### NOTE 1 - ORGANIZATION

The Washington Society of Certified Public Accountants (the "WSCPAC") is a not-for-profit organization formed in 1904 to advance the accounting profession and assist individual members in their professional and educational development. The WSCPAC's membership and activities are concentrated primarily in Washington State.

The WSCPAC has 10 chapters whose primary purpose is to advance the accounting profession and assist individual members in their professional and educational development on a local level. The net assets and results of activities of these chapters are included in the accompanying consolidated financial statements.

The members of WSCPAC's Board of Directors are also the voting members of the Washington CPA Foundation (the "Foundation"). The Foundation's primary purpose is to enhance education and promote research in accounting and related fields.

The WSCPAC is affiliated with the Washington CPA/PAC (the "PAC") whose purpose is to contribute to Washington State political campaigns. The PAC committee members are approved by the Board of Directors of the WSCPAC.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of the WSCPAC (including the 10 chapters), the Foundation and the PAC. Collectively, these entities are called "the Society" in these consolidated financial statements. All significant inter-entity accounts and transactions have been eliminated in consolidation.

#### *Financial Statement Presentation*

The Society reports 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. The Society records contributions received as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

#### *Unrestricted Net Assets*

Unrestricted Society net assets consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Chapter use	\$ 84,440	\$ 91,318
Undesignated	<u>3,673,965</u>	<u>3,824,415</u>
Total Unrestricted Society Net Assets	\$ <u>3,758,405</u>	\$ <u>3,915,733</u>

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

May 31, 2016 and 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Unrestricted Net Assets (Continued)***

Unrestricted Foundation net assets at May 31, 2016 and 2015 are to be utilized solely to fund scholarships, grants, education programs and other Foundation activities. While no donor restriction exists on these funds, they can only be used in accordance with the mission of the Foundation.

***Temporarily Restricted Net Assets***

Donor-restricted contributions are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-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. Temporarily restricted net assets consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Roy Polley Scholarship Fund	\$ 859,099	
George J. Waterman Memorial Scholarship Fund	<u>23,995</u>	\$ <u>31,092</u>
Endowed Scholarship Funds (Note 5)	883,094	31,092
Other scholarship funds	3,615	46,180
PAC activities	<u>146,249</u>	<u>118,463</u>
	<u>\$ 1,032,958</u>	<u>\$ 195,735</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets consist of investments in mutual funds and equity securities, which are restricted in perpetuity to provide scholarships for students majoring in accounting at colleges and universities in Washington State. The income earned on investments is temporarily restricted for such scholarships.

***Revenue Recognition***

Dues are recognized as revenue in the applicable membership period. Registration payments for continuing professional education programs are recognized as revenue in the period in which the related program is held. Dues and registration payments received in advance are deferred.

***Donated Services***

Many volunteers donate significant amounts of time to the activities of the Society. The consolidated financial statements do not reflect the value of these donated services as the services do not require specialized skills (and would not otherwise be purchased) and, therefore, do not meet the requirements for recognition.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash in a bank and money market funds (unless those money market funds are classified as investments). Most cash funds are held in interest bearing accounts. The Society maintains cash balances at financial institutions with insurance by the Federal Deposit Insurance Corporation ("FDIC"), with basic coverage up to \$250,000. Cash balances at a banking institution exceeded the limit as of May 31, 2016 by \$362,727. Investments held at a brokerage house exceeded the Securities Investor Protection Corporation and cash limit by \$762,881, including \$400,000 held in cash for liquidity purposes.

#### *Investments*

Investments in equity securities with readily-determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value measurement of the investments were determined using Level 1 observable market inputs (within the fair value hierarchy) consisting of quoted prices in active markets for identical assets. The Society's policy is to invest in money market accounts, certificates of deposit, equity securities, short and intermediate term debt, and bond and equity mutual funds, all of which are considered to be Level 1.

Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities. Gains and losses on sales of investments are determined using the specific identification method.

#### *Accounts Receivable*

Accounts receivable consist of unpaid advertising and continuing professional education fees. Accounts receivable are unsecured and do not bear interest. Management reviews accounts receivable, estimates the amount of uncollectible accounts and records a reserve for doubtful accounts (if required). Uncollectible accounts are written off against the reserve. No allowance for doubtful accounts was considered necessary by management at May 31, 2016, as no amounts more than 90 days old are considered uncollectible.

#### *Property and Equipment*

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The capitalization policy threshold is \$1,000. Assets must have estimated useful lives of at least two years to be considered for capitalization. Depreciation expense was \$127,765 and \$127,134 for the years ended May 31, 2016 and 2015, respectively.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Retirement Program***

The Society has a 401(k) retirement plan for the benefit of all eligible employees. Under the plan, the Society will match up to the first 4% of an employee's deferral. The match is vested immediately. For the years ended May 31, 2016 and 2015, the Society also contributed an additional 7% to the plan of the employee's annual gross salary. This is vested over a six-year period. The total expense recognized under the plan was \$134,673 in 2016 and \$150,015 in 2015.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

#### ***Agency Contract***

The Foundation holds funds on behalf of the Washington State Board of Accountancy ("State Board") under terms of an agency contract that originated during the year ended May 31, 2016. Agency funds are reported in the statement of financial position as other assets and other liabilities in equal amounts. Except to the extent that the Society will earn an annual agency fee, activities related to these agency funds will not affect the change in consolidated net assets (see Note 6).

#### ***Functional Allocation of Expense***

The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services based on time and other resources used.

#### ***Income Taxes***

The WSCPA is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The PAC is subject to tax on its net investment income under Section 527 of the Internal Revenue Code. No tax was due on net investment income for the years ended May 31, 2016 or 2015.

The Society evaluates its uncertain income tax positions, if any, and may record a liability for any unrecognized tax obligations resulting from positions taken or expected to be taken in an income tax return. Estimated interest and penalties related to unrecognized tax obligations, if any, are recorded as a component of income tax expense included in general and administrative expenses in the consolidated statements of activities. No liability has been recorded for uncertain tax positions, or related interest or penalties, as of May 31, 2016 or 2015. The tax years ended prior to May 31, 2013 are closed to examination.

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

May 31, 2016 and 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Subsequent Events***

The management of the Society evaluated for subsequent events and transactions for potential recognition and disclosure through December 13, 2016, the date the financial statements were available to be issued.

**NOTE 3 - INVESTMENTS**

Investments consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Money market accounts	\$ 1,012,881	\$ 910,965
Equity mutual funds		
Real estate index funds	653,178	546,288
Value index funds	34,205	14,967
Growth index funds	1,038,340	872,063
Small cap index funds	482,885	428,535
Large cap index funds	<u>1,171,031</u>	<u>971,807</u>
Total Equity Mutual Funds	3,379,639	2,833,660
Fixed income mutual funds		
Corporate bond index funds	778,153	337,750
Preferred stock index funds	202,079	111,896
Treasury bill index funds	1,052,103	463,918
Intermediate term bond	884,569	698,614
Inflation protection security	<u>61,179</u>	<u>7,698</u>
Total Fixed Income Mutual Funds	<u>2,978,083</u>	<u>1,619,876</u>
Total Investments	\$ <u>7,370,603</u>	\$ <u>5,364,501</u>

These investments are reported in the consolidated statements of financial position at May 31 as follows:

	<u>2016</u>	<u>2015</u>
Investments	\$ 4,991,136	\$ 5,233,409
Endowment investments	983,094	131,092
Investments held under agency contract	<u>1,396,373</u>	<u>                    </u>
Total Investments	\$ <u>7,370,603</u>	\$ <u>5,364,501</u>

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 571,500	\$ 571,500
Buildings and improvements	1,685,045	1,685,045
Furniture and equipment	334,655	317,388
Computer equipment	<u>406,432</u>	<u>382,762</u>
	2,997,632	2,956,695
Less accumulated depreciation	<u>(2,193,842)</u>	<u>(2,066,077)</u>
	803,790	890,618
Fixed assets not yet in service	<u>59,698</u>	<u>          </u>
Property and Equipment, Net	\$ <u><u>863,488</u></u>	\$ <u><u>890,618</u></u>

### NOTE 5 - ENDOWMENT

The Foundation's endowment includes the following funds:

- The George J. Waterman Memorial Scholarship Fund is a perpetual endowment with a historical dollar value of \$100,000. Earnings on this perpetual endowment are purpose restricted for scholarships.
- The Roy J. Polley Scholarship Fund is a term endowment which requires the income of the fund, plus 1% of the principle, to be used exclusively for annual scholarships.

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including any funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### ***Interpretation of Relevant Law***

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

**NOTE 5 - ENDOWMENT** (Continued)

*Interpretation of Relevant Law* (Continued)

following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Changes in endowment investments are as follows for the years ended May 31, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>May 31, 2016</u>				
Endowment investments at beginning of year		\$ 31,092	\$ 100,000	\$ 131,092
Contribution		800,100		800,100
Transfer		42,565		42,565
Investment return				
Investment income	\$ 5,210	2,342		7,552
Net appreciation (realized and unrealized)		<u>16,995</u>	_____	<u>16,995</u>
Total Investment Return	<u>5,210</u>	<u>19,337</u>	_____	<u>24,547</u>
Accrued scholarships payable		(10,000)		(10,000)
Appropriation of endowment investments for expenditure	(3,000)			(3,000)
Investment fees	<u>(2,210)</u>	_____	_____	<u>(2,210)</u>
 Total Endowment Investments	 \$ _____	 \$ <u>883,094</u>	 \$ <u>100,000</u>	 \$ <u>983,094</u>



**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

**NOTE 5 - ENDOWMENT** (Continued)

During the year ended May 31, 2016, endowed scholarship funds increased by \$42,565 and other purpose restricted scholarship funds decreased by \$42,565 in accordance with donor intent.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>May 31, 2015</u>				
Endowment investments at beginning of year		\$ 25,987	\$ 100,000	\$ 125,987
Investment return				
Investment income	\$ 2,487			2,487
Net appreciation (realized and unrealized)	<u>1,022</u>	<u>5,105</u>	_____	<u>6,127</u>
Total Investment Return	<u>3,509</u>	<u>5,105</u>	_____	<u>8,614</u>
Appropriation of endowment investments for expenditure	(3,000)			(3,000)
Investment fees	<u>(509)</u>	_____	_____	<u>(509)</u>
Total Endowment Investments	\$ _____	\$ <u>31,092</u>	\$ <u>100,000</u>	\$ <u>131,092</u>

***Return Objectives and Risk Parameters***

The Foundation has adopted investment and spending policies for endowment assets that attempt to protect the principal of the Foundation's assets, ensure a return on investment commensurate with the safety of the principal and to ensure sufficient resources are available to meet the Foundation's needs. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that assumes a medium level of investment risk with losses not to exceed 12% per year. The Foundation expects its endowment funds, over time, to provide an average rate of return of a minimum of CPI plus 2%. Actual returns in any given year may vary from this amount.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation between fixed income and equity investments. The asset allocation for equity investments should not exceed 70% of total liquid invested assets.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

### NOTE 5 - ENDOWMENT (Continued)

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation authorizes annual appropriations for distribution based on the fair value of each endowment fund at the end of the prior fiscal year. The annual payout rate is 5% for the George J. Waterman Memorial Scholarship Fund and 1% for the Roy Polley Scholarship Fund. In establishing the annual payout rate for the Waterman Fund, the Foundation considered the long-term expected return on its endowment investments. The annual payout rate for the Polley Fund is donor specified.

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies as of May 31, 2016 or 2015.

### NOTE 6 - AGENCY CONTRACT

On May 8, 2015, the Governor of the State of Washington signed into law substitute Senate Bill 5534, which became effective July 24, 2015. The bill created the Certified Public Accounting Scholarship Program for students enrolled at accredited Washington-based colleges or universities with a declared major in accounting, entering their junior year or higher. A total of \$3.3 million dollars was budgeted to fund the scholarship program using certain reserve funds from the Washington State Board of Accountancy ("State Board"). The Foundation is named in the statute as the organization responsible for administering the scholarship program. An agreement between the Foundation and the State Board was entered into concerning the administration of the scholarship program.

Changes in agency investments for the year ended May 31, 2016:

Transfer of funds	\$ 1,350,000
Investment return	
Investment income	6,822
Net appreciation (realized and unrealized)	<u>41,975</u>
Total Investment Return	48,797
Investment fees	<u>(2,424)</u>
Total Investments Held Under Agency Contract	\$ <u>1,396,373</u>

The agency obligation consisted of the following amounts as of May 31, 2016:

Scholarships awarded	\$ 175,000
Uncommitted	<u>1,221,373</u>
Total Obligation under Agency Contract	\$ <u>1,396,373</u>

**SUPPLEMENTARY INFORMATION**

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

May 31, 2016

	Washington Society of CPAs	Washington CPA Foundation	Washington CPA/PAC	Eliminations	Total
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 619,018	\$ 85,591	\$ 127,772		\$ 832,381
Investments	4,544,320	446,816			4,991,136
Accounts receivable	116,369	8,989	18,760	\$ (28,298)	115,820
Prepaid expenses	169,216				169,216
<b>Total Current Assets</b>	<u>5,448,923</u>	<u>541,396</u>	<u>146,532</u>	<u>(28,298)</u>	<u>6,108,553</u>
<b>NONCURRENT ASSETS</b>					
Endowment investments		983,094			983,094
Property and equipment, net	863,488				863,488
<b>Total Noncurrent Assets</b>	<u>863,488</u>	<u>983,094</u>			<u>1,846,582</u>
<b>OTHER ASSETS</b>					
Investments held under agency contract		1,396,373			1,396,373
<b>TOTAL ASSETS</b>	<u>\$ 6,312,411</u>	<u>\$ 2,920,863</u>	<u>\$ 146,532</u>	<u>\$ (28,298)</u>	<u>\$ 9,351,508</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 562,735	\$ 57,711	\$ 283	\$ (28,298)	\$ 592,431
Deferred revenue - continuing professional education programs	467,725				467,725
Deferred revenue - membership dues	1,515,571				1,515,571
Deferred revenue - other	7,975				7,975
<b>Total Current Liabilities</b>	<u>2,554,006</u>	<u>57,711</u>	<u>283</u>	<u>(28,298)</u>	<u>2,583,702</u>
<b>OTHER LIABILITIES</b>					
Obligation under agency contract		1,396,373			1,396,373
<b>Total Liabilities</b>	<u>2,554,006</u>	<u>1,454,084</u>	<u>283</u>	<u>(28,298)</u>	<u>3,980,075</u>
<b>NET ASSETS</b>					
Unrestricted - Society	3,758,405				3,758,405
Unrestricted - Foundation		480,070			480,070
<b>Total Unrestricted Net Assets</b>	<u>3,758,405</u>	<u>480,070</u>			<u>4,238,475</u>
Temporarily restricted		886,709	146,249		1,032,958
Permanently restricted		100,000			100,000
<b>Total Net Assets</b>	<u>3,758,405</u>	<u>1,466,779</u>	<u>146,249</u>		<u>5,371,433</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,312,411</u>	<u>\$ 2,920,863</u>	<u>\$ 146,532</u>	<u>\$ (28,298)</u>	<u>\$ 9,351,508</u>

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended May 31, 2016

	Washington Society of CPAs	Washington CPA Foundation	Washington CPA/PAC	Eliminations	Total
<b>REVENUES</b>					
Education programs	\$ 2,715,229				\$ 2,715,229
Membership dues	1,875,963				1,875,963
Peer review fees	193,678				193,678
Interest and dividend income	84,019	\$ 19,578	\$ 12		103,609
Networking events	60,337				60,337
Advertising	21,286				21,286
Contributions		866,314	34,375		900,689
Other	128,058			\$ (2,301)	125,757
<b>Total Revenue</b>	<b>5,078,570</b>	<b>885,892</b>	<b>34,387</b>	<b>(2,301)</b>	<b>5,996,548</b>
<b>EXPENSES</b>					
Program services					
Education programs	2,565,968				2,565,968
Member services programs	1,110,558				1,110,558
Peer review expenses	203,993				203,993
Networking events	55,820				55,820
Scholarships, grants and education programs		55,000			55,000
PAC expenses	77,869		6,601	(2,301)	82,169
<b>Total Program Expenses</b>	<b>4,014,208</b>	<b>55,000</b>	<b>6,601</b>	<b>(2,301)</b>	<b>4,073,508</b>
General and administrative	1,090,070	13,092			1,103,162
<b>Total Expenses</b>	<b>5,104,278</b>	<b>68,092</b>	<b>6,601</b>	<b>(2,301)</b>	<b>5,176,670</b>
<b>Change in Net Assets before Gain on Investments</b>	<b>(25,708)</b>	<b>817,800</b>	<b>27,786</b>		<b>819,878</b>
Gain (loss) on investments	(131,620)	8,159			(123,461)
<b>CHANGE IN NET ASSETS</b>	<b>\$ (157,328)</b>	<b>\$ 825,959</b>	<b>\$ 27,786</b>	<b>\$</b>	<b>\$ 696,417</b>