

**WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

Audited Consolidated Financial Statements
and Supplementary Information

May 31, 2019 and 2018

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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and Supplementary Information

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Independent Auditor's Report

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 "WSCPA"), Washington CPA Foundation (the "Foundation") and Washington CPA/PAC (the "PAC") (collectively, the "Society"), which comprise the consolidated statements of financial position as of May 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

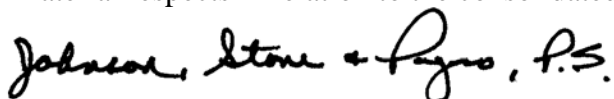
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Washington Society of Certified Public Accountants and related entities as of May 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Society adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-profit Entities* as of and for the years ended May 31, 2019 and 2018. Our opinion is not modified with respect to this matter.

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, 2019 and activities for the year ended May 31, 2019 on pages 22 through 24 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.

September 20, 2019

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 720,395	\$ 832,052
Investments	5,347,273	5,797,227
Accounts receivable	61,897	55,899
Prepaid expenses	<u>221,110</u>	<u>184,496</u>
Total Current Assets	6,350,675	6,869,674
NONCURRENT ASSETS		
Endowment investments	1,874,032	1,853,291
Property and equipment, net	<u>853,133</u>	<u>843,171</u>
Total Noncurrent Assets	2,727,165	2,696,462
OTHER ASSETS		
Investments held under agency contract	<u>2,943,109</u>	<u>3,151,284</u>
TOTAL ASSETS	<u>\$ 12,020,949</u>	<u>\$ 12,717,420</u>

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

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 535,287	\$ 608,845
Deferred revenue - continuing professional education programs	415,247	420,107
Deferred revenue - membership dues	1,340,843	1,533,506
Deferred revenue - other	<u>1,524</u>	<u>1,900</u>
Total Current Liabilities	2,292,901	2,564,358
OTHER LIABILITIES		
Obligation under agency contract	<u>2,943,109</u>	<u>3,151,284</u>
Total Liabilities	5,236,010	5,715,642
NET ASSETS		
Without donor restrictions - the WSCPA	4,287,952	4,438,093
Without donor restrictions - the Foundation	<u>547,940</u>	<u>561,356</u>
Total Net Assets without Donor Restrictions	4,835,892	4,999,449
With donor restrictions	<u>1,949,047</u>	<u>2,002,329</u>
Total Net Assets	<u>6,784,939</u>	<u>7,001,778</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,020,949</u>	<u>\$ 12,717,420</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, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Education programs	\$ 2,091,764		\$ 2,091,764	\$ 2,368,911		\$ 2,368,911
Membership dues	1,842,810		1,842,810	1,900,882		1,900,882
Peer review fees	187,407		187,407	203,225		203,225
Interest and dividend income, net of related expenses (2019 \$27,521; 2018 \$27,417)	86,325	\$ 35,358	121,683	74,908	\$ 32,582	107,490
Networking events	8,015		8,015	44,800		44,800
Advertising	21,434		21,434	22,242		22,242
Contributions	53,274	72,810	126,084	30,227	101,339	131,566
Other	135,596		135,596	141,718		141,718
Net assets released from restrictions	171,424	(171,424)		101,485	(101,485)	
Total Revenue	4,598,049	(63,256)	4,534,793	4,888,398	32,436	4,920,834
EXPENSES						
Program services						
Education programs	2,039,287		2,039,287	2,257,841		2,257,841
Member services programs	990,344		990,344	1,014,898		1,014,898
Peer review expenses	266,565		266,565	268,681		268,681
Advocacy	453,276		453,276	339,198		339,198
Total Program Expenses	3,749,472	•	3,749,472	3,880,618		3,880,618
General and administrative	847,083		847,083	771,173		771,173
Foundation	181,931		181,931	157,643		157,643
Total Expenses	4,778,486		4,778,486	4,809,434		4,809,434
Change in Net Assets Before Gain on Investments	(180,437)	(63,256)	(243,693)	78,964	32,436	111,400
Gain on investments	16,880	9,974	26,854	321,398	103,018	424,416
CHANGE IN NET ASSETS	(163,557)	(53,282)	(216,839)	400,362	135,454	535,816
Net Assets at Beginning of Year	4,999,449	2,002,329	7,001,778	4,599,087	1,866,875	6,465,962
NET ASSETS AT END OF YEAR	\$ 4,835,892	\$ 1,949,047	\$ 6,784,939	\$ 4,999,449	\$ 2,002,329	\$ 7,001,778

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

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended May 31, 2019 with Comparative Totals for 2018

	<u>Education</u>	<u>Member Services</u>	<u>Peer Review</u>	<u>Advocacy</u>	<u>Total Programs</u>	<u>General and Administrative</u>	<u>Foundation</u>	<u>2019 Total Expenses</u>	<u>2018 Total Expenses</u>
Salaries and compensation	\$ 456,665	\$ 483,301	\$ 103,155	\$ 163,186	\$ 1,206,307	\$ 443,145	\$ 26,538	\$ 1,675,990	\$ 1,647,072
Employee benefits and taxes	146,278	154,810	33,042	52,271	386,401	141,947	8,501	536,849	502,981
Total Compensation Expense	602,943	638,111	136,197	215,457	1,592,708	585,092	35,039	2,212,839	2,150,053
Professional services	716,503	35,000	91,780	177,102	1,020,385		136,038	1,156,423	1,216,192
Facility costs	113,714	54,606			168,320			168,320	247,485
Food and beverage	193,826				193,826			193,826	218,887
Credit card fees	63,706	32,252			95,958			95,958	103,097
Marketing, postage and printing	87,556	42,763			130,319		2,463	132,782	128,192
Repair and maintenance	19,786	6,713	353	2,120	28,972	6,007	353	35,332	50,088
Utilities and phone	31,095	20,192	3,345	6,687	61,319	18,382	1,095	80,796	77,039
Insurance and taxes	41,454	9,239	548	2,926	54,167	25,846	487	80,500	66,834
Supplies and subscriptions	43,780	28,994	1,064	5,115	78,953	8,672	454	88,079	85,327
Technology	71,327	74,983	14,159	22,399	182,868	60,825	3,643	247,336	177,491
Travel	9,202	10,078	9,629	4,623	33,532	11,067	414	45,013	38,271
Depreciation	30,716	28,150	5,678	9,459	74,003	25,765	1,541	101,309	80,274
Administrative and other	13,679	9,263	3,812	7,388	34,142	105,427	404	139,973	170,204
TOTAL EXPENSES	<u>\$ 2,039,287</u>	<u>\$ 990,344</u>	<u>\$ 266,565</u>	<u>\$ 453,276</u>	<u>\$ 3,749,472</u>	<u>\$ 847,083</u>	<u>\$ 181,931</u>	<u>\$ 4,778,486</u>	<u>\$ 4,809,434</u>

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

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended May 31, 2018

	<u>Education</u>	<u>Member Services</u>	<u>Peer Review</u>	<u>Advocacy</u>	<u>Total Programs</u>	<u>General and Administrative</u>	<u>Foundation</u>	<u>2018 Total Expenses</u>
Salaries and compensation	\$ 451,587	\$ 504,330	\$ 100,687	\$ 158,928	\$ 1,215,532	\$ 406,423	\$ 25,117	\$ 1,647,072
Employee benefits and taxes	137,905	154,012	30,748	48,533	371,198	124,113	7,670	502,981
Total Compensation Expense	589,492	658,342	131,435	207,461	1,586,730	530,536	32,787	2,150,053
Professional services	893,031	35,550	90,343	84,716	1,103,640		112,552	1,216,192
Facility costs	163,107	84,378			247,485			247,485
Food and beverage	218,887				218,887			218,887
Credit card fees	70,332	32,765			103,097			103,097
Marketing, postage and printing	86,880	35,750			122,630		5,562	128,192
Repair and maintenance	28,049	9,517	501	3,005	41,072	8,515	501	50,088
Utilities and phone	30,148	19,920	3,095	6,281	59,444	16,586	1,009	77,039
Insurance and taxes	31,656	8,614	522	2,720	43,512	22,870	452	66,834
Supplies and subscriptions	43,482	28,561	929	4,659	77,631	7,315	381	85,327
Technology	51,958	57,175	9,958	15,719	134,810	40,197	2,484	177,491
Travel	6,005	6,235	14,776	3,417	30,433	7,616	222	38,271
Depreciation	24,962	23,379	4,379	7,369	60,089	19,015	1,170	80,274
Administrative and other	19,852	14,712	12,743	3,851	51,158	118,523	523	170,204
TOTAL EXPENSES	<u>\$ 2,257,841</u>	<u>\$ 1,014,898</u>	<u>\$ 268,681</u>	<u>\$ 339,198</u>	<u>\$ 3,880,618</u>	<u>\$ 771,173</u>	<u>\$ 157,643</u>	<u>\$ 4,809,434</u>

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from education programs	\$ 2,080,906	\$ 2,383,983
Cash received from membership dues	1,650,147	1,929,427
Cash received from other sources	478,160	536,658
Cash paid for employees	(2,256,366)	(2,043,087)
Cash paid to vendors and others	(2,558,504)	(2,702,399)
Interest and dividends received	149,204	134,907
	<u> </u>	<u> </u>
Net Cash Flow Provided (Used) by Operating Activities	(456,453)	239,489
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,327,536	2,090,591
Purchase of investments	(1,871,469)	(2,231,016)
Purchases of property and equipment	(111,271)	(108,611)
	<u> </u>	<u> </u>
Net Cash Flow Provided (Used) by Investing Activities	344,796	(249,036)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(111,657)	(9,547)
Cash and Cash Equivalents at Beginning of Year	<u>832,052</u>	<u>841,599</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 720,395</u>	<u>\$ 832,052</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ (216,839)	\$ 535,816
Adjustments to reconcile change in net assets to net cash flow provided (used) by operating activities		
Depreciation	101,309	80,274
Gain on investments	(26,854)	(424,416)
Changes in operating assets and liabilities		
Accounts receivable	(5,998)	(7,879)
Prepaid expenses	(36,614)	(61,974)
Accounts payable and accrued expenses	(73,558)	71,584
Deferred revenue	(197,899)	46,084
NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (456,453)</u>	<u>\$ 239,489</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, 2019 and 2018

NOTE 1 - ORGANIZATION

The Washington Society of Certified Public Accountants (the "WSCPAs") 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 WSCPAs's membership and activities are concentrated primarily in Washington State.

The WSCPAs has 9 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 WSCPAs'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 WSCPAs 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 WSCPAs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the WSCPAs (including the 9 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Society records support as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Net Asset without Donor Restrictions

WSCPAs net assets without donor restrictions consist of the following at May 31:

	<u>2019</u>	<u>2018</u>
Chapter use	\$ 64,026	\$ 69,444
Undesignated	<u>4,223,926</u>	<u>4,368,649</u>
Total WSCPAs Net Assets without Donor Restrictions	\$ <u>4,287,952</u>	\$ <u>4,438,093</u>

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets without Donor Restrictions (Continued)

Foundation net assets without donor restrictions at May 31, 2019 and 2018 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.

Net Assets with Donor Restrictions

Contributions with donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions in accordance with the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Society has received endowment gifts where donors have specified the investment be restricted in perpetuity to provide scholarships for students majoring in accounting at colleges and universities in Washington State. The income earned on investments is restricted for such scholarships.

Net assets with donor restrictions consist of the following at May 31:

	<u>2019</u>	<u>2018</u>
Restricted for purpose or passage of time		
Roy Polley Scholarship Fund	\$ 1,737,346	\$ 1,714,859
George J. Waterman Memorial Scholarship Fund	<u>36,686</u>	<u>38,433</u>
Endowed Scholarship Funds (Note 7)	1,774,032	1,753,292
Other scholarship funds	36,116	36,615
PAC activities	<u>38,899</u>	<u>112,422</u>
	1,849,047	1,902,329
Donor restricted endowment funds	<u>100,000</u>	<u>100,000</u>
Total Net Assets with Donor Restrictions	\$ <u>1,949,047</u>	\$ <u>2,002,329</u>

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.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended May 31, 2019 and 2018 were \$57,435 and \$46,447, respectively.

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.

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, 2019 by \$295,136. Cash equivalent investments held at a brokerage house exceeded the Securities Investor Protection Corporation cash equivalent cash limit by \$591,405, 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. 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.

Fair Value Measurements

The Society measures the fair value of assets and liabilities, and related disclosures in accordance with a hierarchy based on defined inputs. The hierarchy prioritizes the inputs underlying fair value measurements and requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements.

Level 1 inputs are more reliable and objective than Level 2 inputs, which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, the Society is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018, respectively, 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 \$101,309 and \$80,274 for the years ended May 31, 2019 and 2018, respectively.

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, 2019 and 2018, 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 \$155,439 in 2019 and \$152,088 in 2018.

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 (the "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 8). The contract will expire on September 1, 2036, and will automatically renew for additional one year periods if the funds are not fully disbursed. Either party can elect to terminate the contract during the additional periods by providing a written notice sixty days in advance of the expiration date.

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.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 or 2018.

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, 2019 or 2018.

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and consistency in the type of information provided about investment expenses and return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Subsequent Events

The management of the Society evaluated for subsequent events and transactions for potential recognition and disclosure through September 20, 2019, the date the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at May 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 720,395	\$ 832,052
Investments	5,347,273	5,797,227
Accounts receivable	<u>61,897</u>	<u>55,899</u>
Total Financial Assets	6,129,565	6,685,178

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

	<u>2019</u>	<u>2018</u>
Cash restricted for Foundation scholarships	\$ (36,116)	\$ (36,615)
Cash and receivables restricted for PAC	<u>(38,899)</u>	<u>(112,422)</u>
	<u>\$ 6,054,550</u>	<u>\$ 6,536,141</u>

As part of the liquidity management plan, the Society invests cash in excess of daily requirements in short-term investments, CDs and money market funds.

NOTE 4 - INVESTMENTS

Investments consist of the following at May 31:

	<u>Fair Value</u>	<u>Fair Value Measurements</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
<u>May 31, 2019</u>			
Money market accounts	\$ 926,040	\$ 926,040	
Equity mutual funds			
Real estate index funds	1,042,866	1,042,866	
Value index funds	69,580	69,580	
Growth index funds	1,936,381	1,936,381	
Small cap index funds	811,419	811,419	
Large cap index funds	<u>2,070,634</u>	<u>2,070,634</u>	
Total Fixed Income Mutual Funds	5,930,880	5,930,880	
Fixed income mutual funds			
Corporate bond index funds	776,413		\$ 776,413
Treasury bill index funds	617,399		617,399
Ultrashort bond fund	486,592		486,592
Intermediate term bond	1,281,965		1,281,965
Inflation protection securities fund	<u>145,125</u>		<u>145,125</u>
Total Fixed Income Mutual Funds	<u>3,307,494</u>		<u>3,307,494</u>
Total Investments	<u>\$ 10,164,414</u>	<u>\$ 5,930,880</u>	<u>\$ 3,307,494</u>

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 4 - INVESTMENTS (Continued)

	<u>Fair Value</u>	<u>Fair Value Measurements</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
<u>May 31, 2018</u>			
Money market accounts	\$ 931,859	\$ 931,859	
Equity mutual funds			
Real estate index funds	1,164,912	1,164,912	
Value index funds	68,028	68,028	
Growth index funds	1,970,092	1,970,092	
Small cap index funds	924,697	924,697	
Large cap index funds	<u>2,094,593</u>	<u>2,094,593</u>	
Total Equity Mutual Funds	6,222,322	6,222,322	
Fixed income mutual funds			
Corporate bond index funds	874,647		\$ 874,647
Preferred stock index funds	633		633
Treasury bill index funds	1,147,268		1,147,268
Intermediate term bond	1,445,442		1,445,442
Inflation protection securities fund	<u>179,631</u>		<u>179,631</u>
Total Fixed Income Mutual Funds	<u>3,647,621</u>		<u>3,647,621</u>
Total Investments	\$ <u>10,801,802</u>	\$ <u>6,222,322</u>	\$ <u>3,647,621</u>

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

	<u>2019</u>	<u>2018</u>
Investments	\$ 5,347,273	\$ 5,797,227
Endowment investments	1,874,032	1,853,291
Investments held under agency contract	<u>2,943,109</u>	<u>3,151,284</u>
Total Investments	\$ <u>10,164,414</u>	\$ <u>10,801,802</u>

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 4 - INVESTMENTS (Continued)

Investment gains and losses consist of the following:

	<u>Washington Society of CPAs</u>	<u>Washington CPA Foundation</u>	<u>Total</u>
<u>May 31, 2019</u>			
Realized gain	\$ 169,818	\$ 11,060	\$ 180,878
Unrealized gain (loss)	<u>(156,883)</u>	<u>2,859</u>	<u>(154,024)</u>
Total Investment Gain	\$ <u>12,935</u>	\$ <u>13,919</u>	\$ <u>26,854</u>
<u>May 31, 2018</u>			
Realized gain	\$ 81,745	\$ 14,362	\$ 96,107
Unrealized gain	<u>208,223</u>	<u>120,086</u>	<u>328,309</u>
Total Investment Gain	\$ <u>289,968</u>	\$ <u>134,448</u>	\$ <u>424,416</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at May 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 571,500	\$ 571,500
Buildings and improvements	1,706,126	1,702,875
Furniture and equipment	368,644	347,923
Computer equipment	<u>615,716</u>	<u>584,501</u>
	3,261,986	3,206,799
Less accumulated depreciation	<u>(2,474,437)</u>	<u>(2,373,128)</u>
	787,549	833,671
Fixed assets not yet in service	<u>65,584</u>	<u>9,500</u>
Property and Equipment, net	\$ <u>853,133</u>	\$ <u>843,171</u>

NOTE 6 - RELATED PARTY TRANSACTIONS

In 2018, the WSCPA paid a combined total of \$3,651 to a member of its Board of Directors to teach seminars and webcasts in September and December.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 7 - 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 principal, to be used exclusively for annual scholarships and is included in net assets with donor restrictions as purpose-restricted.

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 are not restricted to be held in perpetuity are classified as net assets with donor restrictions 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 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.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 7 - ENDOWMENT (Continued)

Changes in endowment investments are as follows for the years ended May 31, 2019 and 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>May 31, 2019</u>			
Endowment investments at beginning of year		\$ 1,853,291	\$ 1,853,291
Contribution		22,310	22,310
Investment return, net	\$ <u>5,000</u>	<u>38,431</u>	<u>43,431</u>
Appropriation of endowment investments for expenditure	<u>(5,000)</u>	<u>(40,000)</u>	<u>(45,000)</u>
Total Endowment Investments	\$ _____	\$ <u>1,874,032</u>	\$ <u>1,874,032</u>
<u>May 31, 2018</u>			
Endowment investments at beginning of year		\$ 1,744,501	\$ 1,744,501
Investment return, net	\$ <u>25,000</u>	<u>108,790</u>	<u>133,790</u>
Appropriation of endowment investments for expenditure	<u>(25,000)</u>	_____	<u>(25,000)</u>
Total Endowment Investments	\$ _____	\$ <u>1,853,291</u>	\$ <u>1,853,291</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 Consumer Price Index, plus 2%. Actual returns in any given year may vary from this amount.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 7 - ENDOWMENT (Continued)

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 65% of total liquid invested assets.

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 George J. Waterman Memorial Scholarship Fund, the Foundation considered the long-term expected return on its endowment investments. The annual payout rate for the Roy J. Polley Scholarship 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, 2019 or 2018.

NOTE 8 - 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 was budgeted to fund the scholarship program using certain reserve funds from (the 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.

As of May 31, 2019, the State Board is holding \$410,000 of the budgeted funds to pay the Foundation's annual fees for the work performed in accordance with the agreement.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2019 and 2018

NOTE 8 - AGENCY CONTRACT (Continued)

Changes in agency investments for the years ended May 31:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 3,151,284	\$ 3,147,469
Transfer of funds	25,000	107,574
Investment return		
Investment income	64,038	59,576
Net appreciation (realized and unrealized)	<u>14,456</u>	<u>105,280</u>
Total Investment Return	78,494	164,856
Scholarships	(275,000)	(230,000)
Investment fees	(11,669)	(13,615)
Agency fee	<u>(25,000)</u>	<u>(25,000)</u>
Total Investments Held under Agency Contract	\$ <u>2,943,109</u>	\$ <u>3,151,284</u>

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

	<u>2019</u>	<u>2018</u>
Scholarships awarded	\$ 410,000	\$ 275,000
Uncommitted	<u>2,533,109</u>	<u>2,876,284</u>
Total Obligation under Agency Contract	\$ <u>2,943,109</u>	\$ <u>3,151,284</u>

SUPPLEMENTARY INFORMATION

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

May 31, 2019

	<u>Washington Society of CPAs</u>	<u>Washington CPA Foundation</u>	<u>Washington CPA/PAC</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>					
CURRENT ASSETS					
Cash and cash equivalents	\$ 579,703	\$ 102,293	\$ 38,399		\$ 720,395
Investments	4,750,532	596,741			5,347,273
Accounts receivable	75,695	15,820	500	\$ (30,118)	61,897
Prepaid expenses	221,110				221,110
Total Current Assets	5,627,040	714,854	38,899	(30,118)	6,350,675
NONCURRENT ASSETS					
Endowment investments		1,874,032			1,874,032
Property and equipment, net	853,133				853,133
Total Noncurrent Assets	853,133	1,874,032			2,727,165
OTHER ASSETS					
Investments held under agency contract		2,943,109			2,943,109
TOTAL ASSETS	\$ 6,480,173	\$ 5,531,995	\$ 38,899	\$ (30,118)	\$ 12,020,949

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (Continued)

May 31, 2019

	Washington Society of CPAs	Washington CPA Foundation	Washington CPA/PAC	Eliminations	Total
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 434,607	\$ 130,798	\$	\$ (30,118)	\$ 535,287
Deferred revenue - continuing professional education programs	415,247				415,247
Deferred revenue - membership dues	1,340,843				1,340,843
Deferred revenue - other	1,524				1,524
Total Current Liabilities	2,192,221	130,798		(30,118)	2,292,901
OTHER LIABILITIES					
Obligation under agency contract		2,943,109			2,943,109
Total Liabilities	2,192,221	3,073,907		(30,118)	5,236,010
NET ASSETS					
Without donor restrictions - the WSCPA	4,287,952				4,287,952
Without donor restrictions - the Foundation		547,940			547,940
Total Net Assets without Donor Restrictions	4,287,952	547,940			4,835,892
With donor restrictions		1,910,148	38,899		1,949,047
Total Net Assets	4,287,952	2,458,088	38,899		6,784,939
TOTAL LIABILITIES AND NET ASSETS	\$ 6,480,173	\$ 5,531,995	\$ 38,899	\$ (30,118)	\$ 12,020,949

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended May 31, 2019

	<u>Washington Society of CPAs</u>	<u>Washington CPA Foundation</u>	<u>Washington CPA/PAC</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES					
Education programs	\$ 2,091,764				\$ 2,091,764
Membership dues	1,842,810				1,842,810
Peer review fees	187,407				187,407
Interest and dividend income, net of related expenses (\$27,521)	79,607	\$ 42,072	\$ 4		121,683
Networking events	8,015				8,015
Advertising	21,434				21,434
Contributions		94,671	31,413		126,084
Other	<u>112,036</u>	<u>25,000</u>		<u>\$ (1,440)</u>	<u>135,596</u>
Total Revenue	4,343,073	161,743	31,417	(1,440)	4,534,793
EXPENSES					
Program services					
Education programs	2,039,287				2,039,287
Member services programs	990,344				990,344
Peer review expenses	266,565				266,565
Advocacy	<u>351,216</u>		<u>103,500</u>	<u>(1,440)</u>	<u>453,276</u>
Total Program Expenses	3,647,412		103,500	(1,440)	3,749,472
General and administrative	812,844	32,799	1,440		847,083
Foundation	<u>45,893</u>	<u>136,038</u>			<u>181,931</u>
Total Expenses	<u>4,506,149</u>	<u>168,837</u>	<u>104,940</u>	<u>(1,440)</u>	<u>4,778,486</u>
Change in Net Assets Before Gain on Investments	(163,076)	(7,094)	(73,523)		(243,693)
Gain on investments	<u>12,935</u>	<u>13,919</u>			<u>26,854</u>
CHANGE IN NET ASSETS	<u>\$ (150,141)</u>	<u>\$ 6,825</u>	<u>\$ (73,523)</u>	<u>\$</u>	<u>\$ (216,839)</u>