

**WASHINGTON SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

Audited Consolidated Financial Statements

May 31, 2013 and 2012

**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 "WSCPAs"), the Washington CPA Foundation (the "Foundation"), and the Washington CPA/PAC (the "PAC") which comprise the consolidated statements of financial position as of May 31, 2013 and 2012, 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 WSCPAs' 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 WSCPAs' 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)

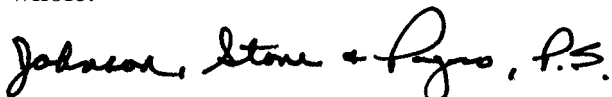
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2013 and 2012, 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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules of financial position as of May 31, 2013 and activities for the year end May 31, 2013 on pages 16 and 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



JOHNSON, STONE & PAGANO, P.S.

September 13, 2013

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 992,904	\$ 1,046,964
Investments	4,639,843	3,982,038
Accounts receivable	35,125	53,710
Prepaid expenses	<u>127,452</u>	<u>139,830</u>
<b>Total Current Assets</b>	5,795,324	5,222,542
Endowment investments	115,905	102,398
Property and equipment, net	911,145	989,392
Website development costs, net	<u></u>	<u>4,758</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,822,374</u>	<u>\$ 6,319,090</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 577,698	\$ 650,377
Deferred revenue - continuing professional education programs	507,140	569,665
Deferred revenue - membership dues	1,422,890	1,326,380
Deferred revenue - other	2,500	3,250
Grant payable	<u>5,000</u>	<u>10,000</u>
<b>Total Current Liabilities</b>	2,515,228	2,559,672
<b>NET ASSETS</b>		
Unrestricted - Society	3,564,373	3,038,037
Unrestricted - Foundation	<u>408,146</u>	<u>356,542</u>
<b>Total Unrestricted Net Assets</b>	3,972,519	3,394,579
Temporarily restricted	234,627	264,839
Permanently restricted	<u>100,000</u>	<u>100,000</u>
<b>Total Net Assets</b>	<u>4,307,146</u>	<u>3,759,418</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,822,374</u>	<u>\$ 6,319,090</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, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>								
Education programs	\$ 3,157,608			\$ 3,157,608	\$ 3,448,608			\$ 3,448,608
Membership dues	1,772,673			1,772,673	1,736,555			1,736,555
Peer review fees	153,926			153,926	149,295			149,295
Interest and dividend income	77,426	\$ 54		77,480	71,703	\$ 97		71,800
Networking events	58,302			58,302	43,570			43,570
Advertising	26,971			26,971	29,269			29,269
Contributions	107,249	1,500		108,749	71,626	58,927		130,553
Other	115,112			115,112	98,859			98,859
Net assets released from restrictions	45,273	(45,273)			850	(850)		
<b>Total Revenue</b>	<b>5,514,540</b>	<b>(43,719)</b>		<b>5,470,821</b>	<b>5,650,335</b>	<b>58,174</b>		<b>5,708,509</b>
<b>EXPENSES</b>								
Program services								
Education programs	2,900,729			2,900,729	3,146,713			3,146,713
Member services programs	1,037,936			1,037,936	1,056,483			1,056,483
Peer review expenses	136,209			136,209	131,681			131,681
Networking events	55,385			55,385	53,446			53,446
Scholarships, grants and education programs	52,000			52,000	55,000			55,000
PAC expenses	167,863			167,863	76,749			76,749
<b>Total Program Expenses</b>	<b>4,350,122</b>			<b>4,350,122</b>	<b>4,520,072</b>			<b>4,520,072</b>
General and administrative	934,678			934,678	936,325			936,325
<b>Total Expenses</b>	<b>5,284,800</b>			<b>5,284,800</b>	<b>5,456,397</b>			<b>5,456,397</b>
<b>Change in Net Assets Before Gain (Loss) on Investments and Transfers</b>	<b>229,740</b>	<b>(43,719)</b>		<b>186,021</b>	<b>193,938</b>	<b>58,174</b>		<b>252,112</b>
Gain (loss) on investments	348,200	13,507		361,707	(66,822)	(4,568)		(71,390)
<b>Change in Net Assets</b>	<b>577,940</b>	<b>(30,212)</b>		<b>547,728</b>	<b>127,116</b>	<b>53,606</b>		<b>180,722</b>
<b>Net Assets at Beginning of Year</b>	<b>3,394,579</b>	<b>264,839</b>	<b>\$ 100,000</b>	<b>3,759,418</b>	<b>3,267,463</b>	<b>211,233</b>	<b>\$ 100,000</b>	<b>3,578,696</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,972,519</b>	<b>\$ 234,627</b>	<b>\$ 100,000</b>	<b>\$ 4,307,146</b>	<b>\$ 3,394,579</b>	<b>\$ 264,839</b>	<b>\$ 100,000</b>	<b>\$ 3,759,418</b>

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

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED STATEMENTS CASH FLOWS**

Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from education programs	\$ 3,099,516	\$ 3,387,789
Cash received from membership dues	1,869,183	1,776,545
Cash received from other sources	466,646	466,746
Cash paid to employees	(1,982,111)	(2,011,781)
Cash paid to vendors and others	(3,236,995)	(3,227,773)
Interest and dividends received	<u>77,480</u>	<u>71,800</u>
<b>Net Cash Flow Provided by Operating Activities</b>	293,719	463,326
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(309,606)	(855,807)
Purchases of property and equipment	<u>(38,173)</u>	<u>(40,946)</u>
<b>Net Cash Flow Used by Investing Activities</b>	<u>(347,779)</u>	<u>(896,753)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(54,060)	(433,427)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,046,964</u>	<u>1,480,391</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 992,904</u>	<u>\$ 1,046,964</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 547,728	\$ 180,722
Adjustments to reconcile change in net assets to net cash flow provided by operating activities		
Depreciation	114,860	137,570
Amortization	4,758	52,161
Loss on disposition of computer equipment	1,561	
Loss (gain) on investments	(361,707)	71,390
Changes in operating assets and liabilities		
Accounts receivable	18,585	37,628
Prepaid expenses	12,378	20,688
Accounts payable and accrued expenses	(72,679)	65,092
Deferred revenue	33,235	(43,256)
Grants payable	(5,000)	(10,000)
Deferred compensation		<u>(48,669)</u>
<b>NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 293,719</u>	<u>\$ 463,326</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, 2013 and 2012

### NOTE 1 - ORGANIZATION

The Washington Society of Certified Public Accountants (the "WSCPAs") is a not-for-profit organization formed 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 12 chapters whose primary purposes are 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 12 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>2013</u>	<u>2012</u>
Chapter use	\$ 98,196	\$ 101,407
Undesignated	<u>3,466,177</u>	<u>2,936,630</u>
Total Unrestricted Society Net Assets	\$ <u>3,564,373</u>	\$ <u>3,038,037</u>

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2013 and 2012

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

Unrestricted Foundation net assets at May 31, 2013 and 2012 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*

Temporarily restricted contributions are recorded as temporarily restricted support and are then reclassified to unrestricted net assets when the restrictions are met. Temporarily restricted net assets consist of the following at May 31:

	<u>2013</u>	<u>2012</u>
Roy Polley Scholarship Fund	\$ 45,365	\$ 46,514
George J. Waterman Memorial Scholarship Fund	15,905	2,398
Other scholarship funds	9,115	7,615
PAC activities	<u>164,242</u>	<u>208,312</u>
	<u>\$ 234,627</u>	<u>\$ 264,839</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.

#### *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, 2013 by \$359,167. Investments held at a brokerage house also briefly exceeded the Securities Investor Protection Corporation and cash limit by \$730,008 prior to being used to purchase additional mutual funds in June 2013.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2013 and 2012

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

#### ***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, and as such 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, 2013 or 2012.

#### ***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 \$114,860 and \$137,570 for the years ended May 31, 2013 and 2012, respectively

#### ***Website Development Costs***

Website development costs are stated at cost and represent a redesign/development project related to the Society's website. The project added significant new functionality features. The website was completed and placed into service in July 2009. The costs were amortized on the straight-line basis over three years and were fully amortized as of May 31, 2013. Amortization expense was \$4,758 and \$52,161 for the years ended May 31, 2013 and 2012, 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, 2013 and 2012, 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 \$149,124 in 2013 and \$151,470 in 2012.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2013 and 2012

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

#### *Use of Estimates*

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

#### *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, 2013 or 2012.

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, 2013 or 2012. The tax years ended May 31, 2012, 2011 and 2010 remain open to examination by taxing authorities.

#### *Subsequent Events*

The management of the Society evaluated for subsequent events and transactions for potential recognition and disclosure through September 13, 2013, the date the financial statements were available to be issued.

### NOTE 3 - INVESTMENTS

Investments consist of the following at May 31:

	<u>2013</u>	<u>2012</u>
Money market accounts	\$ 980,008	\$ 950,302
Equity mutual funds		
Real estate index funds	236,599	340,526
Value index funds	12,233	5,399
Growth index funds	583,919	501,182

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

May 31, 2013 and 2012

**NOTE 3 - INVESTMENTS (Continued)**

	<u>2013</u>	<u>2012</u>
Equity mutual funds (Continued)		
Small cap index funds	\$ 262,789	\$ 237,996
Large cap index funds	<u>646,373</u>	<u>518,746</u>
Total Equity Mutual Funds	1,741,913	1,603,849
Fixed income mutual funds		
Corporate bond index funds	573,878	349,619
Preferred stock index funds	87,839	68,881
Treasury bill index funds	670,993	669,076
Intermediate term bond	598,081	414,565
Inflation protection security	<u>103,036</u>	<u>28,144</u>
Total Fixed Income Mutual Funds	<u>2,033,827</u>	<u>1,530,285</u>
Total Investments	\$ <u>4,755,748</u>	\$ <u>4,084,436</u>

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

	<u>2013</u>	<u>2012</u>
Investments	\$ 4,639,843	\$ 3,982,038
Endowment investments	<u>115,905</u>	<u>102,398</u>
Total Investments	\$ <u>4,755,748</u>	\$ <u>4,084,436</u>

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at May 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 571,500	\$ 571,500
Buildings and improvements	1,703,938	1,703,938
Furniture and equipment	415,799	410,723
Computer equipment	<u>298,328</u>	<u>271,502</u>
	2,989,565	2,957,663
Less accumulated depreciation	<u>2,097,097</u>	<u>1,982,238</u>
	892,468	975,425
Fixed assets not yet in service	<u>18,677</u>	<u>13,967</u>
Property and Equipment, Net	\$ <u>911,145</u>	\$ <u>989,392</u>

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

May 31, 2013 and 2012

**NOTE 5 - WEBSITE DEVELOPMENT COSTS**

Website development costs consist of the following at May 31:

	<u>2013</u>	<u>2012</u>
Website development costs	\$ 156,483	\$ 156,483
Less accumulated amortization	<u>156,483</u>	<u>151,725</u>
Website Development Costs, Net	\$ <u>          </u>	\$ <u>4,758</u>

**NOTE 6 - GRANT PAYABLE**

Grant payable consists of unconditional promises to pay a grant awarded by the Foundation. For years ending May 31, 2013 and 2012, the amounts payable are \$5,000 and \$10,000, respectively.

**NOTE 7 - RELATED PARTY TRANSACTIONS**

The WSCPA occasionally hires members of its Board of Directors or companies owned by Board members to be instructors for continuing professional education courses and other services. For each of the years ended May 31, 2013 and 2012, the WSCPA paid approximately \$60,500 to those related parties. The fees are included in continuing professional education program expenses or other appropriate category in the consolidated statements of activities.

**NOTE 8 - ENDOWMENT**

The Foundation has a \$100,000 endowment used to establish the George J. Waterman Memorial Scholarship Fund. 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.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2013 and 2012

### NOTE 8 - ENDOWMENT (Continued)

#### *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 organization 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

As of May 31, 2013, endowment net assets consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
George J. Waterman Memorial Scholarship Fund	\$ <u>15,905</u>	\$ <u>100,000</u>	\$ <u>115,905</u>
Total Endowment Net Assets	\$ <u>15,905</u>	\$ <u>100,000</u>	\$ <u>115,905</u>

As of May 31, 2012, endowment net assets consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
George J. Waterman Memorial Scholarship Fund	\$ <u>2,398</u>	\$ <u>100,000</u>	\$ <u>102,398</u>
Total Endowment Net Assets	\$ <u>2,398</u>	\$ <u>100,000</u>	\$ <u>102,398</u>



**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2013 and 2012

**NOTE 8 - ENDOWMENT** (Continued)

Changes in endowment net assets are as follows for the years ended:

	<u>May 31, 2013</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets at beginning of year		\$ 2,398	\$ 100,000	\$ 102,398
Investment return				
Investment income	\$ 2,375			2,375
Net appreciation (realized and unrealized)	<u>1,061</u>	<u>13,507</u>	—	<u>14,568</u>
Total Investment Return	<u>3,436</u>	<u>13,507</u>		<u>16,943</u>
Appropriation of endowment assets for expenditure	(3,000)			(3,000)
Investment fees	<u>(436)</u>	—	—	<u>(436)</u>
Total Endowment Net Assets	\$ <u>      </u>	\$ <u>15,905</u>	\$ <u>100,000</u>	\$ <u>115,905</u>

	<u>May 31, 2012</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets at beginning of year		\$ 6,966	\$ 100,000	\$ 106,966
Investment return				
Investment income	\$ 2,287			2,287
Net appreciation (depreciation) (realized and unrealized)	<u>1,119</u>	<u>(4,568)</u>	—	<u>(3,449)</u>
Total Investment Return	<u>3,406</u>	<u>(4,568)</u>		<u>(1,162)</u>
Appropriation of endowment assets for expenditure	(3,000)			(3,000)
Investment fees	<u>(406)</u>	—	—	<u>(406)</u>
Total Endowment Net Assets	\$ <u>      </u>	\$ <u>2,398</u>	\$ <u>100,000</u>	\$ <u>102,398</u>

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2013 and 2012

### **NOTE 8 - ENDOWMENT** (Continued)

#### ***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.

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

The Foundation has a policy of appropriating for distribution each year approximately five percent of the balance in the investment account attributable to the endowment fund at the end of the prior fiscal year. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

#### ***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, 2013 or 2012.

**SUPPLEMENTAL FINANCIAL INFORMATION**

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

CONSOLIDATED SCHEDULE OF FINANCIAL POSITION

May 31, 2013

	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	\$ 713,388	\$ 121,434	\$ 158,082		\$ 992,904
Investments	4,246,051	393,792			4,639,843
Accounts receivable	36,379	8,605	6,160	\$ (16,019)	35,125
Prepaid expenses	127,452				127,452
<b>Total Current Assets</b>	<b>5,123,270</b>	<b>523,831</b>	<b>164,242</b>	<b>(16,019)</b>	<b>5,795,324</b>
Endowment investments		115,905			115,905
Property and equipment, net	911,145				911,145
<b>TOTAL ASSETS</b>	<b>\$ 6,034,415</b>	<b>\$ 639,736</b>	<b>\$ 164,242</b>	<b>\$ (16,019)</b>	<b>\$ 6,822,374</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 537,512	\$ 56,205		\$ (16,019)	\$ 577,698
Deferred revenue - continuing professional education programs	507,140				507,140
Deferred revenue - membership dues	1,422,890				1,422,890
Deferred revenue - other	2,500				2,500
Grant payable		5,000			5,000
<b>Total Current Liabilities</b>	<b>2,470,042</b>	<b>61,205</b>		<b>(16,019)</b>	<b>2,515,228</b>
<b>NET ASSETS</b>					
Unrestricted - Society	3,564,373				3,564,373
Unrestricted - Foundation		408,146			408,146
<b>Total Unrestricted Net Assets</b>	<b>3,564,373</b>	<b>408,146</b>			<b>3,972,519</b>
Temporarily restricted		70,385	\$ 164,242		234,627
Permanently restricted		100,000			100,000
<b>Total Net Assets</b>	<b>3,564,373</b>	<b>578,531</b>	<b>164,242</b>		<b>4,307,146</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,034,415</b>	<b>\$ 639,736</b>	<b>\$ 164,242</b>	<b>\$ (16,019)</b>	<b>\$ 6,822,374</b>

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

CONSOLIDATED SCHEDULE OF ACTIVITIES

For the Year Ended May 31, 2013

	Washington Society of CPAs	Washington CPA Foundation	Washington CPA/PAC	Eliminations	Total
<b>REVENUES</b>					
Education programs	\$ 3,157,608				\$ 3,157,608
Membership dues	1,772,673				1,772,673
Peer review fees	153,926				153,926
Interest and dividend income	67,049	\$ 10,377	\$ 54		77,480
Networking events	58,302				58,302
Advertising	26,971				26,971
Contributions		55,969	52,780		108,749
Other	118,215			\$ (3,103)	115,112
<b>Total Revenue</b>	<b>5,354,744</b>	<b>66,346</b>	<b>52,834</b>	<b>(3,103)</b>	<b>5,470,821</b>
<b>EXPENSES</b>					
Program services					
Education programs	2,900,729				2,900,729
Member services programs	1,037,936				1,037,936
Peer review expenses	136,209				136,209
Networking events	55,385				55,385
Scholarships, grants and education programs		52,000			52,000
PAC expenses	74,063		96,903	(3,103)	167,863
<b>Total Program Expenses</b>	<b>4,204,322</b>	<b>52,000</b>	<b>96,903</b>	<b>(3,103)</b>	<b>4,350,122</b>
General and administrative	922,438	12,240			934,678
<b>Total Expenses</b>	<b>5,126,760</b>	<b>64,240</b>	<b>96,903</b>	<b>(3,103)</b>	<b>5,284,800</b>
<b>Change in Net Assets before Gain on Investments</b>	<b>227,984</b>	<b>2,106</b>	<b>(44,069)</b>		<b>186,021</b>
Gain on investments	298,351	63,356			361,707
<b>CHANGE IN NET ASSETS</b>	<b>\$ 526,335</b>	<b>\$ 65,462</b>	<b>\$ (44,069)</b>	<b>\$</b>	<b>\$ 547,728</b>