

**WASHINGTON SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

Audited Consolidated Financial Statements  
and Supplementary Information

May 31, 2020 and 2019

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

Audited Consolidated Financial Statements  
and Supplementary Information

May 31, 2020 and 2019

**INDEPENDENT AUDITOR'S REPORT** ..... 1-2

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Statements of Financial Position..... 3-4

Consolidated Statements of Activities .....5

Consolidated Statements of Functional Expenses ..... 6-7

Consolidated Statements of Cash Flows ..... 8-9

Notes to Consolidated Financial Statements..... 10-21

**SUPPLEMENTARY INFORMATION**

Consolidating Schedule of Financial Position ..... 22-23

Consolidating Schedule of Activities.....24



1501 Regents Blvd., Suite 100  
Fircrest, WA 98466-6060

## 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, 2020 and 2019, 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.

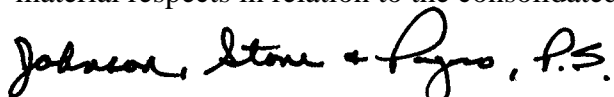
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2020 and 2019, 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, 2020 and schedule of activities for the year ended May 31, 2020 on pages 21 through 23 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 18, 2020

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 865,101	\$ 720,395
Investments	4,269,808	5,347,273
Accounts receivable	40,602	61,897
Prepaid expenses	<u>182,234</u>	<u>221,110</u>
<b>Total Current Assets</b>	5,357,745	6,350,675
<b>NONCURRENT ASSETS</b>		
Endowment investments	1,957,139	1,874,032
Property and equipment, net	<u>900,982</u>	<u>853,133</u>
<b>Total Noncurrent Assets</b>	2,858,121	2,727,165
<b>OTHER ASSETS</b>		
Investments held under agency contract	<u>2,763,768</u>	<u>2,943,109</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,979,634</u>	<u>\$ 12,020,949</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 559,835	\$ 535,287
Deferred revenue - continuing professional education programs	189,233	415,247
Deferred revenue - membership dues	304,526	1,340,843
Deferred revenue - other	800	1,524
<b>Total Current Liabilities</b>	<u>1,054,394</u>	<u>2,292,901</u>
<b>OTHER LIABILITIES</b>		
Obligation under agency contract	<u>2,763,768</u>	<u>2,943,109</u>
<b>Total Liabilities</b>	3,818,162	5,236,010
<b>NET ASSETS</b>		
Without donor restrictions - the WSCPA	4,529,765	4,287,952
Without donor restrictions - the Foundation	<u>539,714</u>	<u>547,940</u>
<b>Total Net Assets without Donor Restrictions</b>	5,069,479	4,835,892
With donor restrictions	<u>2,091,993</u>	<u>1,949,047</u>
<b>Total Net Assets</b>	<u>7,161,472</u>	<u>6,784,939</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 10,979,634</u>	<u>\$ 12,020,949</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, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES</b>						
Education programs	\$ 1,973,381		\$ 1,973,381	\$ 2,091,764		\$ 2,091,764
Membership dues	1,779,920		1,779,920	1,842,810		1,842,810
Peer review fees	213,477		213,477	187,407		187,407
Interest and dividend income, net of related expenses (2020 - \$27,626; 2019 - \$27,521)	79,677	\$ 39,616	119,293	86,325	\$ 35,358	121,683
Networking events	14,380		14,380	8,015		8,015
Advertising	25,761		25,761	21,434		21,434
Contributions	23,078	109,918	132,996	53,274	72,810	126,084
Loss on disposal of property and equipment	(57,601)		(57,601)			
Other	131,440		131,440	135,596		135,596
Net assets released from restrictions	112,378	(112,378)		171,424	(171,424)	
<b>Total Revenue</b>	<b>4,295,891</b>	<b>37,156</b>	<b>4,333,047</b>	<b>4,598,049</b>	<b>(63,256)</b>	<b>4,534,793</b>
<b>EXPENSES</b>						
Program services						
Education programs	1,873,311		1,873,311	2,039,287		2,039,287
Member services programs	864,086		864,086	990,344		990,344
Peer review expenses	256,127		256,127	266,565		266,565
Advocacy	383,045		383,045	453,276		453,276
<b>Total Program Expenses</b>	<b>3,376,569</b>		<b>3,376,569</b>	<b>3,749,472</b>		<b>3,749,472</b>
General and administrative	729,140		729,140	847,083		847,083
Foundation	217,217		217,217	181,931		181,931
<b>Total Expenses</b>	<b>4,322,926</b>		<b>4,322,926</b>	<b>4,778,486</b>		<b>4,778,486</b>
<b>Change in Net Assets Before Gain on Investments</b>	<b>(27,035)</b>	<b>37,156</b>	<b>10,121</b>	<b>(180,437)</b>	<b>(63,256)</b>	<b>(243,693)</b>
Gain on investments	260,622	105,790	366,412	16,880	9,974	26,854
<b>CHANGE IN NET ASSETS</b>	<b>233,587</b>	<b>142,946</b>	<b>376,533</b>	<b>(163,557)</b>	<b>(53,282)</b>	<b>(216,839)</b>
<b>Net Assets at Beginning of Year</b>	<b>4,835,892</b>	<b>1,949,047</b>	<b>6,784,939</b>	<b>4,999,449</b>	<b>2,002,329</b>	<b>7,001,778</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 5,069,479</b>	<b>\$ 2,091,993</b>	<b>\$ 7,161,472</b>	<b>\$ 4,835,892</b>	<b>\$ 1,949,047</b>	<b>\$ 6,784,939</b>

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, 2020 with Comparative Totals for 2019

	Education	Member Services	Peer Review	Advocacy	Total Programs	General and Administrative	Foundation	Total Expenses	
								2020	2019
Salaries and compensation	\$ 421,170	\$ 415,758	\$ 106,283	\$ 172,367	\$ 1,115,578	\$ 405,094	\$ 29,485	\$ 1,550,157	\$ 1,675,990
Employee benefits and taxes	132,220	130,521	33,366	54,112	350,219	127,173	9,256	486,648	536,849
<b>Total Compensation Expense</b>	<b>553,390</b>	<b>546,279</b>	<b>139,649</b>	<b>226,479</b>	<b>1,465,797</b>	<b>532,267</b>	<b>38,741</b>	<b>2,036,805</b>	<b>2,212,839</b>
Professional services	688,545	25,000	75,511	84,480	873,536		165,020	1,038,556	1,156,423
Facility costs	117,372	44,920			162,292			162,292	168,320
Food and beverage	156,862				156,862			156,862	193,826
Credit card fees	57,830	27,506			85,336			85,336	95,958
Marketing, postage and printing	53,316	41,325			94,641		3,982	98,623	132,782
Repair and maintenance	23,126	7,433	413	2,478	33,450	7,433	413	41,296	35,332
Utilities and phone	28,711	17,752	3,515	6,944	56,922	17,428	1,180	75,530	80,796
Insurance and taxes	36,749	7,955	516	2,681	47,901	32,510	448	80,859	80,500
Supplies and subscriptions	39,891	27,379	1,091	5,218	73,579	8,281	458	82,318	88,079
Technology	75,475	74,641	16,377	26,559	193,052	62,419	4,543	260,014	247,336
Travel	6,261	6,180	10,002	3,521	25,964	7,707	325	33,996	45,013
Depreciation	26,264	21,927	5,219	8,934	62,344	21,415	1,525	85,284	101,309
Administrative and other	9,519	15,789	3,834	15,751	44,893	39,680	582	85,155	139,973
<b>TOTAL EXPENSES</b>	<b>\$ 1,873,311</b>	<b>\$ 864,086</b>	<b>\$ 256,127</b>	<b>\$ 383,045</b>	<b>\$ 3,376,569</b>	<b>\$ 729,140</b>	<b>\$ 217,217</b>	<b>\$ 4,322,926</b>	<b>\$ 4,778,486</b>

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, 2019

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

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from education programs	\$ 1,768,662	\$ 2,080,906
Cash received from membership dues	743,603	1,650,147
Cash received from other sources	517,330	478,160
Cash paid for employees	(2,061,474)	(2,256,366)
Cash paid to vendors and others	(2,140,370)	(2,558,504)
Interest and dividends received	146,919	149,204
	<u>                    </u>	<u>                    </u>
<b>Net Cash Flow Used by Operating Activities</b>	(1,025,330)	(456,453)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	2,148,651	2,327,536
Purchase of investments	(787,881)	(1,871,469)
Purchases of property and equipment	(190,734)	(111,271)
	<u>                    </u>	<u>                    </u>
<b>Net Cash Flow Provided by Investing Activities</b>	1,170,036	344,796
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	144,706	(111,657)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>720,395</u>	<u>832,052</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 865,101</u>	<u>\$ 720,395</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ 376,533	\$ (216,839)
Adjustments to reconcile change in net assets to net cash flow provided (used) by operating activities		
Depreciation	85,284	101,309
Gain on investments	(366,412)	(26,854)
Loss on disposal of property and equipment	57,601	
Changes in operating assets and liabilities		
Accounts receivable	21,295	(5,998)
Prepaid expenses	38,876	(36,614)
Accounts payable and accrued expenses	24,548	(73,558)
Deferred revenue	<u>(1,263,055)</u>	<u>(197,899)</u>
<b>NET CASH FLOW USED BY OPERATING ACTIVITIES</b>	<u>\$ (1,025,330)</u>	<u>\$ (456,453)</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, 2020 and 2019

### 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>2020</u>	<u>2019</u>
Chapter use	\$ 60,106	\$ 64,026
Undesignated	<u>4,469,659</u>	<u>4,223,926</u>
Total WSCPAs Net Assets without Donor Restrictions	<u>\$ 4,529,765</u>	<u>\$ 4,287,952</u>

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020 and 2019

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

#### *Net Assets without Donor Restrictions (Continued)*

Foundation net assets without donor restrictions at May 31, 2020 and 2019 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>2020</u>	<u>2019</u>
Restricted for purpose or passage of time		
Roy Polley Scholarship Fund	\$ 1,819,953	\$ 1,737,346
George J. Waterman Memorial Scholarship Fund	<u>37,187</u>	<u>36,686</u>
Endowed Scholarship Funds (Note 7)	1,857,140	1,774,032
Other scholarship funds	39,115	36,116
PAC activities	<u>95,738</u>	<u>38,899</u>
	1,991,993	1,849,047
Donor restricted endowment funds	<u>100,000</u>	<u>100,000</u>
Total Net Assets with Donor Restrictions	\$ <u>2,091,993</u>	\$ <u>1,949,047</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. For the year ending May 31, 2020, the WSCPA in response to the impact of COVID-19, allowed members to defer their payments for three months.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020 and 2019

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

#### ***Advertising***

Advertising costs are expensed as incurred. Advertising expenses for the years ended May 31, 2020 and 2019 were \$33,517 and \$57,435, 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, 2020 by \$394,193. Cash equivalent investments held at a brokerage house exceeded the Securities Investor Protection Corporation ("SIPC") cash equivalent cash limit by \$81,590.

#### ***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, 2020 and 2019

### 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, 2020 and 2019, 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 \$3,000. Assets must have estimated useful lives of at least one year to be considered for capitalization. Depreciation expense was \$85,284 and \$101,309 for the years ended May 31, 2020 and 2019, 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, 2020 and 2019, the Society also contributed an additional 7% of the employees' annual gross salary to the plan. This is vested over a six-year period. The total expense recognized under the plan was \$147,214 in 2020 and \$155,439 in 2019.

#### *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.



## WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020 and 2019

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

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

The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services based on time and other resources used. Salaries and employee benefits are based on estimates of actual time spent on each program or supporting function. The expenses associated with occupancy costs and depreciation are allocated based on the square footage of the space occupied by each program and supporting function. Other expenses are allocated based on estimates of actual usage.

##### ***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, 2020 or 2019.

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, 2020 or 2019.

##### ***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.

##### ***Subsequent Events***

The management of the Society evaluated for subsequent events and transactions for potential recognition and disclosure through September 18, 2020, the date the financial statements were available to be issued.

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020 and 2019

**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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 865,101	\$ 720,395
Investments	4,269,808	5,347,273
Accounts receivable	<u>40,602</u>	<u>61,897</u>
Total Financial Assets	5,175,511	6,129,565
Cash restricted for Foundation scholarships	(39,115)	(36,116)
Cash and receivables restricted for PAC	<u>(95,738)</u>	<u>(38,899)</u>
	<u>\$ 5,040,658</u>	<u>\$ 6,054,550</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, 2020</u>			
Money market accounts	\$ 346,924	\$ 346,924	
Equity mutual funds			
Real estate index funds	960,361	960,361	
Value index funds	133,015	133,015	
Growth index funds	1,863,291	1,863,291	
Small cap index funds	608,938	608,938	
Large cap index funds	<u>2,202,781</u>	<u>2,202,781</u>	
Total Equity Mutual Funds	5,768,386	5,768,386	
Fixed income mutual funds			
Corporate bond index funds	715,384		\$ 715,384
Treasury bill index funds	589,466		589,466
Ultrashort bond fund	429,168		429,168
Intermediate term bond	997,907		997,907
Inflation protection securities fund	<u>143,480</u>		<u>143,480</u>
Total Fixed Income Mutual Funds	<u>2,875,405</u>		<u>2,875,405</u>
Total Investments	<u>\$ 8,990,715</u>	<u>\$ 6,115,310</u>	<u>\$ 2,875,405</u>

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

May 31, 2020 and 2019

**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, 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 Equity 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>6,856,920</u>	\$ <u>3,307,494</u>

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

	<u>2020</u>	<u>2019</u>
Investments	\$ 4,269,808	\$ 5,347,273
Endowment investments	1,957,139	1,874,032
Investments held under agency contract	<u>2,763,768</u>	<u>2,943,109</u>
Total Investments	\$ <u>8,990,715</u>	\$ <u>10,164,414</u>

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, 2020</u>			
Realized gain	\$ 221,246	\$ 75,526	\$ 296,772
Unrealized gain	<u>6,450</u>	<u>63,190</u>	<u>69,640</u>
Total Investment Gain	\$ <u>227,696</u>	\$ <u>138,716</u>	\$ <u>366,412</u>

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020 and 2019

### NOTE 4 - INVESTMENTS (Continued)

	<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>

### NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at May 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 571,500	\$ 571,500
Buildings and improvements	1,706,126	1,706,126
Furniture and equipment	368,644	368,644
Computer equipment	<u>715,586</u>	<u>615,716</u>
	3,361,856	3,261,986
Less accumulated depreciation	<u>(2,460,874)</u>	<u>(2,474,437)</u>
	900,982	787,549
Fixed assets not yet in service	<u>                    </u>	<u>65,584</u>
Property and Equipment, net	\$ <u>900,982</u>	\$ <u>853,133</u>

### NOTE 6 - RELATED PARTY TRANSACTIONS

In 2020, the WSCPA paid a combined total of \$3,691 to a member of its Board of Directors to teach seminars and webcasts during the year.

### 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.

# WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020 and 2019

### **NOTE 7 - ENDOWMENT** (Continued)

- 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 funds 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, 2020 and 2019

**NOTE 7 - ENDOWMENT** (Continued)

Changes in endowment investments are as follows for the years ended May 31, 2020 and 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>May 31, 2020</u>			
Endowment investments at beginning of year		\$ 1,874,032	\$ 1,874,032
Contribution			
Investment return, net	\$ <u>5,000</u>	<u>138,107</u>	<u>143,107</u>
Appropriation of endowment investments for expenditure	<u>(5,000)</u>	<u>(55,000)</u>	<u>(60,000)</u>
Total Endowment Investments	\$ _____	\$ <u>1,957,139</u>	\$ <u>1,957,139</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>

***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, 2020 and 2019

#### **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, 2020 or 2019.

#### **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, 2020, the State Board is holding \$365,000 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, 2020 and 2019

**NOTE 8 - AGENCY CONTRACT (Continued)**

Changes in agency investments for the years ended May 31:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 2,943,109	\$ 3,151,284
Transfer of funds	40,332	25,000
Investment return		
Investment income	60,029	64,038
Net appreciation (realized and unrealized)	<u>165,845</u>	<u>14,456</u>
Total Investment Return	225,874	78,494
Scholarships	(410,000)	(275,000)
Investment fees	(10,547)	(11,669)
Agency fee	<u>(25,000)</u>	<u>(25,000)</u>
Total Investments Held under Agency Contract	\$ <u>2,763,768</u>	\$ <u>2,943,109</u>

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

	<u>2020</u>	<u>2019</u>
Scholarships awarded	\$ 365,000	\$ 410,000
Uncommitted	<u>2,398,768</u>	<u>2,533,109</u>
Total Obligation under Agency Contract	\$ <u>2,763,768</u>	\$ <u>2,943,109</u>

**NOTE 9 - SUBSEQUENT EVENTS**

Subsequent to year-end, the WSCPA has been affected by the effects of the world-wide COVID-19 pandemic. The WSCPA is closely monitoring its operations, liquidity, capital and financial resources, and is actively working to minimize the current and future effects of this unprecedented situation. As of the date of issuance of these consolidated financial statements, the full impact to the WSCPA's financial position or operations is not known.



**SUPPLEMENTARY INFORMATION**

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

May 31, 2020

	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	\$ 658,025	\$ 117,048	\$ 90,028		\$ 865,101
Investments	3,652,841	616,967			4,269,808
Accounts receivable	40,667	9,880	5,710	\$ (15,655)	40,602
Prepaid expenses	182,234				182,234
<b>Total Current Assets</b>	4,533,767	743,895	95,738	(15,655)	5,357,745
<b>NONCURRENT ASSETS</b>					
Endowment investments		1,957,139			1,957,139
Property and equipment, net	900,982				900,982
<b>Total Noncurrent Assets</b>	900,982	1,957,139			2,858,121
<b>OTHER ASSETS</b>					
Investments held under agency contract		2,763,768			2,763,768
<b>TOTAL ASSETS</b>	<b>\$ 5,434,749</b>	<b>\$ 5,464,802</b>	<b>\$ 95,738</b>	<b>\$ (15,655)</b>	<b>\$ 10,979,634</b>

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (Continued)

May 31, 2020

	Washington Society of CPAs	Washington CPA Foundation	Washington CPA/PAC	Eliminations	Total
<b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 410,425	\$ 165,065		\$ (15,655)	\$ 559,835
Deferred revenue - continuing professional education programs	189,233				189,233
Deferred revenue - membership dues	304,526				304,526
Deferred revenue - other	800				800
<b>Total Current Liabilities</b>	904,984	165,065		(15,655)	1,054,394
<b>OTHER LIABILITIES</b>					
Obligation under agency contract		2,763,768			2,763,768
<b>Total Liabilities</b>	904,984	2,928,833		(15,655)	3,818,162
<b>NET ASSETS</b>					
Without donor restrictions - the WSCPA	4,529,765				4,529,765
Without donor restrictions - the Foundation		539,714			539,714
<b>Total Net Assets without Donor Restrictions</b>	4,529,765	539,714			5,069,479
With donor restrictions		1,996,255	\$ 95,738		2,091,993
<b>Total Net Assets</b>	4,529,765	2,535,969	95,738		7,161,472
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,434,749</b>	<b>\$ 5,464,802</b>	<b>\$ 95,738</b>	<b>\$ (15,655)</b>	<b>\$ 10,979,634</b>

**WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

For the Year Ended May 31, 2020

	<u>Washington Society of CPAs</u>	<u>Washington CPA Foundation</u>	<u>Washington CPA/PAC</u>	<u>Eliminations</u>	<u>Total</u>
<b>REVENUES</b>					
Education programs	\$ 1,973,381				\$ 1,973,381
Membership dues	1,779,920				1,779,920
Peer review fees	213,477				213,477
Interest and dividend income, net of related expenses (\$27,626)	74,655	\$ 44,632	\$ 6		119,293
Networking events	14,380				14,380
Advertising	25,761				25,761
Contributions		63,078	69,918		132,996
Loss on disposal of property and equipment	(57,601)				(57,601)
Other	<u>108,025</u>	<u>25,000</u>	<u>        </u>	<u>\$ (1,585)</u>	<u>131,440</u>
<b>Total Revenue</b>	4,131,998	132,710	69,924	(1,585)	4,333,047
<b>EXPENSES</b>					
Program services					
Education programs	1,873,311				1,873,311
Member services programs	864,086				864,086
Peer review expenses	256,127				256,127
Advocacy	<u>384,630</u>	<u>        </u>	<u>        </u>	<u>(1,585)</u>	<u>383,045</u>
<b>Total Program Expenses</b>	3,378,154			(1,585)	3,376,569
General and administrative	716,055		13,085		729,140
Foundation	<u>23,672</u>	<u>193,545</u>	<u>        </u>	<u>        </u>	<u>217,217</u>
<b>Total Expenses</b>	<u>4,117,881</u>	<u>193,545</u>	<u>13,085</u>	<u>(1,585)</u>	<u>4,322,926</u>
<b>Change in Net Assets Before Gain on Investments</b>	14,117	(60,835)	56,839		10,121
Gain on investments	<u>227,696</u>	<u>138,716</u>	<u>        </u>	<u>        </u>	<u>366,412</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 241,813</u>	<u>\$ 77,881</u>	<u>\$ 56,839</u>	<u>\$        </u>	<u>\$ 376,533</u>