

**WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

Audited Consolidated Financial Statements
and Supplementary Information

May 31, 2021 and 2020

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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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, 2021 and 2020, 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.

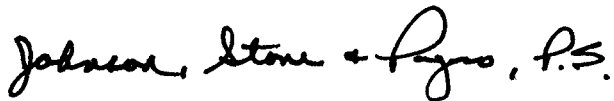
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2021 and 2020, 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, 2021 and schedule of activities for the year ended May 31, 2021 on pages 23 through 25 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.

October 1, 2021

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,201,490	\$ 865,101
Investments	6,333,971	4,269,808
Accounts receivable	16,678	40,602
Prepaid expenses	<u>254,502</u>	<u>182,234</u>
Total Current Assets	7,806,641	5,357,745
NONCURRENT ASSETS		
Endowment investments	2,427,899	1,957,139
Property and equipment, net	<u>797,885</u>	<u>900,982</u>
Total Noncurrent Assets	3,225,784	2,858,121
OTHER ASSETS		
Investments held under agency contract	<u>3,064,608</u>	<u>2,763,768</u>
TOTAL ASSETS	<u>\$ 14,097,033</u>	<u>\$ 10,979,634</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 459,349	\$ 559,835
Deferred revenue - continuing professional education programs	306,162	189,233
Deferred revenue - membership dues	942,819	304,526
Deferred revenue - other	4,974	800
Note payable	<u>299,070</u>	
Total Current Liabilities	2,012,374	1,054,394
OTHER LIABILITIES		
Obligation under agency contract	<u>3,064,608</u>	<u>2,763,768</u>
Total Liabilities	5,076,982	3,818,162
NET ASSETS		
Without donor restrictions - WSCPA	5,809,845	4,529,765
Without donor restrictions - Foundation	<u>702,794</u>	<u>539,714</u>
Total Net Assets without Donor Restrictions	6,512,639	5,069,479
With donor restrictions	<u>2,507,412</u>	<u>2,091,993</u>
Total Net Assets	<u>9,020,051</u>	<u>7,161,472</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,097,033</u>	<u>\$ 10,979,634</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, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Education programs	\$ 1,772,948		\$ 1,772,948	\$ 1,973,381		\$ 1,973,381
Membership dues	1,711,501		1,711,501	1,779,920		1,779,920
Peer review fees	240,075		240,075	213,477		213,477
Interest and dividend income, net of related expenses (2021 - \$31,173; 2020 - \$27,626)	44,033	\$ 30,345	74,378	79,677	\$ 39,616	119,293
Networking events	4,075		4,075	14,380		14,380
Advertising	30,675		30,675	25,761		25,761
Contributions	81,424	57,028	138,452	23,078	109,918	132,996
Loss on disposal of property and equipment				(57,601)		(57,601)
Other	142,113		142,113	131,440		131,440
Net assets released from restrictions	175,728	(175,728)		112,378	(112,378)	
Total Revenue	4,202,572	(88,355)	4,114,217	4,295,891	37,156	4,333,047
EXPENSES						
Program services						
Education programs	1,554,476		1,554,476	1,873,311		1,873,311
Member services programs	818,559		818,559	864,086		864,086
Peer review expenses	221,387		221,387	256,127		256,127
Advocacy	445,020		445,020	383,045		383,045
Total Program Expenses	3,039,442		3,039,442	3,376,569		3,376,569
General and administrative	758,544		758,544	729,140		729,140
Foundation	188,261		188,261	217,217		217,217
Total Expenses	3,986,247		3,986,247	4,322,926		4,322,926
Change in Net Assets Before Gain on Investments	216,325	(88,355)	127,970	(27,035)	37,156	10,121
Gain on investments	1,226,835	503,774	1,730,609	260,622	105,790	366,412
CHANGE IN NET ASSETS	1,443,160	415,419	1,858,579	233,587	142,946	376,533
Net Assets at Beginning of Year	5,069,479	2,091,993	7,161,472	4,835,892	1,949,047	6,784,939
NET ASSETS AT END OF YEAR	\$ 6,512,639	\$ 2,507,412	\$ 9,020,051	\$ 5,069,479	\$ 2,091,993	\$ 7,161,472

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, 2021 with Comparative Totals for 2020

	Education	Member Services	Peer Review	Advocacy	Total Programs	General and Administrative	Foundation	Total Expenses	
								2021	2020
Salaries and compensation	\$ 439,998	\$ 434,344	\$ 111,034	\$ 180,072	\$ 1,165,448	\$ 423,203	\$ 30,803	\$ 1,619,454	\$ 1,550,157
Employee benefits and taxes	120,490	118,941	30,406	49,311	319,148	115,890	8,435	443,473	486,648
Total Compensation Expense	560,488	553,285	141,440	229,383	1,484,596	539,093	39,238	2,062,927	2,036,805
Professional services	714,939	22,500	52,808	165,674	955,921		139,746	1,095,667	1,038,556
Facility costs	10,839	6,681			17,520			17,520	162,292
Food and beverage									156,862
Credit card fees	44,348	57,962			102,310			102,310	85,336
Marketing, postage and printing	14,375	27,502			41,877		1,500	43,377	98,623
Repair and maintenance	15,390	4,947	275	1,649	22,261	4,947	275	27,483	41,296
Utilities and phone	26,309	17,212	3,554	6,793	53,868	16,879	1,156	71,903	75,530
Insurance and taxes	40,714	9,187	588	3,094	53,583	34,123	516	88,222	80,859
Supplies and subscriptions	25,022	22,350	1,216	4,692	53,280	6,575	383	60,238	82,318
Technology	59,374	58,861	10,081	16,349	144,665	38,423	2,797	185,885	260,014
Travel	316	153	1,924	260	2,653	534	7	3,194	33,996
Depreciation	35,682	31,224	7,595	12,788	87,289	30,473	2,185	119,947	85,284
Administrative and other	6,680	6,695	1,906	4,338	19,619	87,497	458	107,574	85,155
TOTAL EXPENSES	\$ 1,554,476	\$ 818,559	\$ 221,387	\$ 445,020	\$ 3,039,442	\$ 758,544	\$ 188,261	\$ 3,986,247	\$ 4,322,926

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, 2020

	<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 2020</u>
Salaries and compensation	\$ 421,170	\$ 415,758	\$ 106,283	\$ 172,367	\$ 1,115,578	\$ 405,094	\$ 29,485	\$ 1,550,157
Employee benefits and taxes	<u>132,220</u>	<u>130,521</u>	<u>33,366</u>	<u>54,112</u>	<u>350,219</u>	<u>127,173</u>	<u>9,256</u>	<u>486,648</u>
Total Compensation Expense	553,390	546,279	139,649	226,479	1,465,797	532,267	38,741	2,036,805
Professional services	688,545	25,000	75,511	84,480	873,536		165,020	1,038,556
Facility costs	117,372	44,920			162,292			162,292
Food and beverage	156,862				156,862			156,862
Credit card fees	57,830	27,506			85,336			85,336
Marketing, postage and printing	53,316	41,325			94,641		3,982	98,623
Repair and maintenance	23,126	7,433	413	2,478	33,450	7,433	413	41,296
Utilities and phone	28,711	17,752	3,515	6,944	56,922	17,428	1,180	75,530
Insurance and taxes	36,749	7,955	516	2,681	47,901	32,510	448	80,859
Supplies and subscriptions	39,891	27,379	1,091	5,218	73,579	8,281	458	82,318
Technology	75,475	74,641	16,377	26,559	193,052	62,419	4,543	260,014
Travel	6,261	6,180	10,002	3,521	25,964	7,707	325	33,996
Depreciation	26,264	21,927	5,219	8,934	62,344	21,415	1,525	85,284
Administrative and other	<u>9,519</u>	<u>15,789</u>	<u>3,834</u>	<u>15,751</u>	<u>44,893</u>	<u>39,680</u>	<u>582</u>	<u>85,155</u>
TOTAL EXPENSES	<u>\$ 1,873,311</u>	<u>\$ 864,086</u>	<u>\$ 256,127</u>	<u>\$ 383,045</u>	<u>\$ 3,376,569</u>	<u>\$ 729,140</u>	<u>\$ 217,217</u>	<u>\$ 4,322,926</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from education programs	\$ 1,913,801	\$ 1,768,662
Cash received from membership dues	2,349,794	743,603
Cash received from other sources	559,563	517,330
Cash paid for employees	(2,081,621)	(2,061,474)
Cash paid to vendors and others	(1,988,605)	(2,140,370)
Interest and dividends received	105,551	146,919
Net Cash Flow Provided (Used) by Operating Activities	858,483	(1,025,330)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,252,170	2,148,651
Purchase of investments	(2,056,484)	(787,881)
Purchases of property and equipment	(16,850)	(190,734)
Net Cash Flow Provided (Used) by Investing Activities	(821,164)	1,170,036
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	299,070	
Net Cash Flow Provided by Financing Activities	299,070	
NET INCREASE IN CASH AND CASH EQUIVALENTS	336,389	144,706
Cash and Cash Equivalents at Beginning of Year	865,101	720,395
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>1,201,490</u>	\$ <u>865,101</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ 1,858,579	\$ 376,533
Adjustments to reconcile change in net assets to net cash flow provided (used) by operating activities		
Depreciation	119,947	85,284
Gain on investments	(1,730,609)	(366,412)
Loss on disposal of property and equipment		57,601
Changes in operating assets and liabilities		
Accounts receivable	23,924	21,295
Prepaid expenses	(72,268)	38,876
Accounts payable and accrued expenses	(100,486)	24,548
Deferred revenue	<u>759,396</u>	<u>(1,263,055)</u>
NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 858,483</u>	<u>\$ (1,025,330)</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, 2021 and 2020

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>2021</u>	<u>2020</u>
Chapter use	\$ 61,478	\$ 60,106
Undesignated	<u>5,748,367</u>	<u>4,469,659</u>
Total WSCPAs Net Assets without Donor Restrictions	<u>\$ 5,809,845</u>	<u>\$ 4,529,765</u>

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets without Donor Restrictions (Continued)

Foundation net assets without donor restrictions at May 31, 2021 and 2020 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>2021</u>	<u>2020</u>
Restricted for purpose or passage of time		
Roy Polley Scholarship Fund	\$ 2,262,771	\$ 1,819,952
George J. Waterman Memorial Scholarship Fund	<u>65,128</u>	<u>37,187</u>
Endowed Scholarship Funds (Note 7)	2,327,899	1,857,139
Other scholarship funds	22,659	39,116
PAC activities	<u>56,854</u>	<u>95,738</u>
	2,407,412	1,991,993
Donor restricted endowment funds	<u>100,000</u>	<u>100,000</u>
Total Net Assets with Donor Restrictions	\$ <u>2,507,412</u>	\$ <u>2,091,993</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, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended May 31, 2021 and 2020 were \$14,245 and \$33,517, 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, 2021 by \$806,957. Cash equivalent investments held at a brokerage house do not exceed the Securities Investor Protection Corporation ("SIPC") cash equivalent cash limit.

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, 2021 and 2020

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, 2021 and 2020, 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 \$119,947 and \$85,284 for the years ended May 31, 2021 and 2020, 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, 2021 and 2020, 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 \$100,795 and \$147,214 for the years ended May 31, 2021 and 2020, respectively.

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, 2021 and 2020

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, 2021 or 2020.

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, 2021 or 2020.

Change in Accounting Principle

During the year ended May 31, 2021, the WSCPA adopted the requirements of Financial Accounting Standards Board's Accounting Standards Update No. 2014-09 - *Revenue from Contracts with Customers*, Topic 606 ("ASU 2014-09"). In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 has had no material effect on the change in net assets balances, by classification, as previously reported.

Subsequent Events

The management of the Society evaluated for subsequent events and transactions for potential recognition and disclosure through October 1, 2021, the date the financial statements were available to be issued.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021 and 2020

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,201,490	\$ 865,101
Investments	6,333,971	4,269,808
Accounts receivable	<u>16,678</u>	<u>40,602</u>
Total Financial Assets	7,552,139	5,175,511
Cash restricted for Foundation scholarships	(22,657)	(39,115)
Cash and receivables restricted for PAC	<u>(56,854)</u>	<u>(95,738)</u>
	<u>\$ 7,472,628</u>	<u>\$ 5,040,658</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, 2021</u>			
Money market accounts	\$ 314,143	\$ 314,143	
Equity mutual funds			
Real estate index funds	1,372,162	1,372,162	
Value index funds	154,610	154,610	
Growth index funds	2,302,955	2,302,955	
Small cap index funds	889,823	889,823	
Large cap index funds	<u>2,915,816</u>	<u>2,915,816</u>	
Total Equity Mutual Funds	7,635,366	7,635,366	
Fixed income mutual funds			
Corporate bond index funds	769,968		\$ 769,968
Treasury bill index funds	1,329,669		1,329,669
Ultrashort bond fund	596,357		596,357
Intermediate term bond	1,021,901		1,021,901
Inflation protection securities fund	<u>159,074</u>		<u>159,074</u>
Total Fixed Income Mutual Funds	<u>3,876,969</u>		<u>3,876,969</u>
Total Investments	<u>\$ 11,826,478</u>	<u>\$ 7,949,509</u>	<u>\$ 3,876,969</u>

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021 and 2020

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, 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>

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

	<u>2021</u>	<u>2020</u>
Investments	\$ 6,333,971	\$ 4,269,808
Endowment investments	2,427,899	1,957,139
Investments held under agency contract	<u>3,064,608</u>	<u>2,763,768</u>
Total Investments	\$ <u>11,826,478</u>	\$ <u>8,990,715</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, 2021</u>			
Realized gain	\$ 219,142	\$ 149,507	\$ 368,649
Unrealized gain	<u>856,685</u>	<u>505,275</u>	<u>1,361,960</u>
Total Investment Gain	\$ <u>1,075,827</u>	\$ <u>654,782</u>	\$ <u>1,730,609</u>

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021 and 2020

NOTE 4 - INVESTMENTS (Continued)

	<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>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at May 31:

	<u>2021</u>	<u>2020</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>732,436</u>	<u>715,586</u>
	3,378,706	3,361,856
Less accumulated depreciation	<u>(2,580,821)</u>	<u>(2,460,874)</u>
Property and Equipment, net	\$ <u>797,885</u>	\$ <u>900,982</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. There were no related party transactions in 2021.

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, 2021 and 2020

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, 2021 and 2020

NOTE 7 - ENDOWMENT (Continued)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>May 31, 2021</u>			
Endowment investments at beginning of year		\$ 1,957,139	\$ 1,957,139
Investment return, net	\$ <u>10,000</u>	<u>525,760</u>	<u>535,760</u>
Accrued scholarship payable		(5,000)	(5,000)
Appropriation of endowment investments for expenditure	<u>(10,000)</u>	<u>(50,000)</u>	<u>(60,000)</u>
Total Endowment Investments	\$ _____	\$ <u>2,427,899</u>	\$ <u>2,427,899</u>
<u>May 31, 2020</u>			
Endowment investments at beginning of year		\$ 1,874,032	\$ 1,874,032
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>

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. 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, 2021 and 2020

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, 2021 or 2020.

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, 2021, the State Board is holding \$390,000 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, 2021 and 2020

NOTE 8 - AGENCY CONTRACT (Continued)

Changes in agency investments for the years ended May 31:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 2,763,768	\$ 2,943,109
Transfer of funds	33,001	40,332
Investment return		
Investment income	41,459	60,029
Net appreciation (realized and unrealized)	<u>627,481</u>	<u>165,845</u>
Total Investment Return	668,940	225,874
Scholarships	(365,000)	(410,000)
Investment fees	(11,101)	(10,547)
Agency fee	<u>(25,000)</u>	<u>(25,000)</u>
Total Investments Held under Agency Contract	\$ <u>3,064,608</u>	\$ <u>2,763,768</u>

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

	<u>2021</u>	<u>2020</u>
Scholarships awarded	\$ 390,000	\$ 365,000
Uncommitted	<u>2,674,608</u>	<u>2,398,768</u>
Total Obligation under Agency Contract	\$ <u>3,064,608</u>	\$ <u>2,763,768</u>

NOTE 9 - RISKS, UNCERTAINTIES AND COMMITMENTS

As of May 31, 2021, the world was in the midst of the COVID-19 pandemic. Significant uncertainty remains regarding the wide-ranging effects of the pandemic subsequent to year-end. 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 financial statements, the full impact of the pandemic to the WSCPA's financial position or operations is not known.

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021 and 2020

NOTE 9 - RISKS, UNCERTAINTIES AND COMMITMENTS (Continued)

In January 2021, the WSCPA entered into an unsecured term note payable agreement with a bank totaling \$299,070, with an interest rate of 1% and maturing January 2026. The term note payable was entered into in conjunction with the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") Paycheck Protection Program ("PPP"), and later modified by the PPP Flexibility Act. The PPP provides for loans to qualifying organizations for up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and certain other costs during the twenty-four weeks commencing from the date the organization received loan proceeds (the "covered period"). The principal balance was \$299,070 at May 31, 2021. The balance of the note was forgiven subsequent to the year ended May 31, 2021.

SUPPLEMENTARY INFORMATION

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

May 31, 2021

	<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	\$ 1,087,288	\$ 60,208	\$ 53,994		\$ 1,201,490
Investments	5,572,724	761,247			6,333,971
Accounts receivable	16,725	19,524	2,860	\$ (22,431)	16,678
Prepaid expenses	<u>254,502</u>				<u>254,502</u>
Total Current Assets	6,931,239	840,979	56,854	(22,431)	7,806,641
NONCURRENT ASSETS					
Endowment investments		2,427,899			2,427,899
Property and equipment, net	<u>797,885</u>				<u>797,885</u>
Total Noncurrent Assets	797,885	2,427,899			3,225,784
OTHER ASSETS					
Investments held under agency contract		<u>3,064,608</u>			<u>3,064,608</u>
TOTAL ASSETS	<u>\$ 7,729,124</u>	<u>\$ 6,333,486</u>	<u>\$ 56,854</u>	<u>\$ (22,431)</u>	<u>\$ 14,097,033</u>

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (Continued)

May 31, 2021

	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	\$ 366,254	\$ 115,526		\$ (22,431)	\$ 459,349
Deferred revenue - continuing professional education programs	306,162				306,162
Deferred revenue - membership dues	942,819				942,819
Deferred revenue - other	4,974				4,974
Current portion of long-term debt	299,070				299,070
Total Current Liabilities	1,919,279	115,526		(22,431)	2,012,374
OTHER LIABILITIES					
Obligation under agency contract		3,064,608			3,064,608
Total Liabilities	1,919,279	3,180,134		(22,431)	5,076,982
NET ASSETS					
Without donor restrictions - WSCPA	5,809,845				5,809,845
Without donor restrictions - Foundation		702,794			702,794
Total Net Assets without Donor Restrictions	5,809,845	702,794			6,512,639
With donor restrictions		2,450,558	\$ 56,854		2,507,412
Total Net Assets	5,809,845	3,153,352	56,854		9,020,051
TOTAL LIABILITIES AND NET ASSETS	\$ 7,729,124	\$ 6,333,486	\$ 56,854	\$ (22,431)	\$ 14,097,033

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended May 31, 2021

	Washington Society of CPAs	Washington CPA Foundation	Washington CPA/PAC	Eliminations	Total
REVENUES					
Education programs	\$ 1,772,948				\$ 1,772,948
Membership dues	1,711,501				1,711,501
Peer review fees	240,075				240,075
Interest and dividend income, net of related expenses (\$31,173)	44,107	\$ 30,266	\$ 5		74,378
Networking events	4,075				4,075
Advertising	30,675				30,675
Contributions		81,424	57,028		138,452
Other	119,202	25,000		\$ (2,089)	142,113
Total Revenue	<u>3,922,583</u>	<u>136,690</u>	<u>57,033</u>	<u>(2,089)</u>	<u>4,114,217</u>
EXPENSES					
Program services					
Education programs	1,554,476				1,554,476
Member services programs	818,559				818,559
Peer review expenses	221,387				221,387
Advocacy	445,020				445,020
Total Program Expenses	<u>3,039,442</u>				<u>3,039,442</u>
General and administrative	664,716		95,917	(2,089)	758,544
Foundation	14,172	174,089			188,261
Total Expenses	<u>3,718,330</u>	<u>174,089</u>	<u>95,917</u>	<u>(2,089)</u>	<u>3,986,247</u>
Change in Net Assets Before Gain on Investments	204,253	(37,399)	(38,884)		127,970
Gain on investments	1,075,827	654,782			1,730,609
CHANGE IN NET ASSETS	<u>\$ 1,280,080</u>	<u>\$ 617,383</u>	<u>\$ (38,884)</u>	<u>\$</u>	<u>\$ 1,858,579</u>