

Audited Financial Statements

The Michigan Association of
Certified Public Accountants

*Years Ended March 31, 2022 and 2021
with Report of Independent Auditors*

The Michigan Association of
Certified Public Accountants

Audited Financial Statements

Years Ended March 31, 2022 and 2021

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Report of Independent Auditors

Board of Directors
The Michigan Association of Certified
Public Accountants

Opinion

We have audited the accompanying financial statements of the Michigan Association of Certified Public Accountants, which comprise the statements of financial position as of March 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Association of Certified Public Accountants as of March 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Michigan Association of Certified Public Accountants and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Michigan Association of Certified Public Accountants' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Michigan Association of Certified Public Accountants' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Michigan Association of Certified Public Accountants' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Andrews Hooper Paulik PLC

Okemos, Michigan
August 10, 2022

The Michigan Association of Certified Public Accountants

Statements of Financial Position

	March 31	
	2022	2021
Assets		
Cash and cash equivalents	\$ 860,433	\$ 744,922
Accounts receivable, net	117,908	388,439
Deferred costs and prepaid expenses	170,121	143,582
Investments	3,288,559	3,356,541
Furniture, equipment, and leasehold improvements, net	1,076,789	1,369,202
Operating lease right-of-use asset, net	2,006,618	2,157,978
Total assets	<u>\$ 7,520,428</u>	<u>\$ 8,160,664</u>
 Liabilities and Net Assets		
Accounts payable	\$ 363,825	\$ 243,927
Accrued compensation and withheld payroll taxes	199,586	216,814
Accrued other liabilities	27,154	114,710
Bank line of credit	-	640,000
Unearned program revenue	429,797	442,430
Unearned membership dues	801,468	790,853
Paycheck Protection Program loan	-	578,100
Finance lease liability	15,813	71,444
Operating lease liability	2,154,700	2,288,873
Total liabilities	<u>3,992,343</u>	5,387,151
Net assets without donor retrictions	<u>3,528,085</u>	2,773,513
Total liabilities and net assets	<u>\$ 7,520,428</u>	<u>\$ 8,160,664</u>

The Michigan Association of Certified Public Accountants

Statements of Activities

	Year Ended March 31	
	2022	2021
Operating Revenue		
Continuing professional education and development	\$ 2,992,441	\$ 2,520,182
Dues	3,196,162	3,166,121
Peer review services	420,164	397,527
Member services	236,375	160,451
Interest and dividend income	217,122	101,498
Grant	386,262	382,171
Paycheck Protection Program loan forgiveness	578,100	-
Other	26,985	269,307
	<hr/>	<hr/>
Total operating revenue	8,053,611	6,997,257
Operating Expenses		
Program services:		
Professional education and development	3,025,165	2,939,595
Membership services, recruitment, and retention	2,280,850	2,352,856
Peer review services	465,612	372,809
Community outreach	46,425	51,830
Total program services	5,818,052	5,717,090
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Supporting activities – general management	1,300,076	1,196,018
	<hr/>	<hr/>
Total operating expenses	7,118,128	6,913,108
	<hr/>	<hr/>
Operating income	935,483	84,149
Other Revenue and Expenses		
Realized and unrealized gain (loss) on investments, net	(180,911)	894,170
	<hr/>	<hr/>
Change in net assets without donor restrictions	754,572	978,319
Net assets without donor restrictions, beginning of year	2,773,513	1,795,194
Net assets without donor restrictions, end of year	<u>\$ 3,528,085</u>	<u>\$ 2,773,513</u>

The Michigan Association of Certified Public Accountants

Statement of Functional Expenses

Year Ended March 31, 2022

	Program Services				Supporting	Total
	Professional Education and Development	Peer Review Services	Membership Services	Community Outreach	Activities General Management	
Operating Expenses						
Salaries and wages	\$ 683,745	\$ 190,634	\$ 1,088,358	\$ 34,317	\$ 678,185	\$ 2,675,239
Benefits	95,963	27,487	116,381	3,589	81,243	324,663
Payroll taxes	50,477	14,687	86,405	2,519	46,778	200,866
Total salaries and related expenses	830,185	232,808	1,291,144	40,425	806,206	3,200,768
Professional fees	1,088,653	108,725	211,520	-	170,223	1,579,121
Presenter fees	505,272	1,400	11,500	-	-	518,172
Supplies	26,050	1,075	23,531	-	20,086	70,742
Communication	12,772	3,691	19,043	-	8,064	43,570
Marketing	73,523	148	94,486	-	12,007	180,164
Occupancy	110,844	29,595	144,097	-	59,080	343,616
Dues and subscriptions	3,424	2,156	29,036	-	11,305	45,921
Equipment	77,633	20,728	100,922	-	38,540	237,823
Transportation	11,776	2,087	13,015	-	14,736	41,614
Meetings	43,220	5,397	23,713	6,000	28,859	107,189
Other	55,058	7,938	76,061	-	31,429	170,486
Depreciation and loss on disposal	186,755	49,864	242,782	-	99,541	578,942
Total operating expenses	\$ 3,025,165	\$ 465,612	\$ 2,280,850	\$ 46,425	\$ 1,300,076	\$ 7,118,128

See accompanying notes.

The Michigan Association of Certified Public Accountants

Statement of Functional Expenses

Year Ended March 31, 2021

	Program Services				Supporting Activities	Total
	Professional Education and Development	Peer Review Services	Membership Services	Community Outreach	General Management	
Operating Expenses						
Salaries and wages	\$ 868,180	\$ 151,764	\$ 1,123,437	\$ 36,197	\$ 705,493	\$ 2,885,071
Benefits	108,678	14,701	118,616	4,863	72,552	319,410
Payroll taxes	68,331	11,939	85,486	3,024	49,904	218,684
Total salaries and related expenses	1,045,189	178,404	1,327,539	44,084	827,949	3,423,165
Professional fees	804,953	91,508	197,242	-	169,250	1,262,953
Presenter fees	485,322	1,700	180	-	-	487,202
Supplies	11,172	600	17,447	-	32,476	61,695
Communication	16,761	3,756	24,114	-	6,287	50,918
Marketing	92,188	989	40,813	-	12,173	146,163
Occupancy	117,050	23,410	176,356	-	26,531	343,347
Dues and subscriptions	10,428	2,238	23,640	-	11,812	48,118
Equipment	75,965	15,193	114,454	-	18,718	224,330
Transportation	2,202	-	1,593	-	8,938	12,733
Meetings	4,807	933	6,938	7,746	3,829	24,253
Other	44,334	8,233	77,176	-	26,098	155,841
Depreciation and loss on disposal	229,224	45,845	345,364	-	51,957	672,390
Total operating expenses	\$ 2,939,595	\$ 372,809	\$ 2,352,856	\$ 51,830	\$ 1,196,018	\$ 6,913,108

See accompanying notes.

The Michigan Association of Certified Public Accountants

Statements of Cash Flows

	Year Ended March 31	
	2022	2021
Operating Activities		
Change in net assets without donor restrictions	\$ 754,572	\$ 978,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Operating lease right-of-use asset amortization	151,360	144,754
Depreciation and amortization of finance lease right-of-use asset	578,942	672,057
Bad debt expense (recovery)	-	(7,500)
Realized and unrealized loss (gain) on investments	164,564	(907,165)
Loss on disposal of fixed assets	-	333
Paycheck Protection Program loan forgiveness	(578,100)	-
Changes in operating assets and liabilities:		
Accounts receivable	270,531	(182,754)
Deferred costs and prepaid expenses	(26,539)	44,691
Accounts payable	89,047	(171,585)
Accrued liabilities	(104,784)	77,332
Unearned revenue	(2,018)	(90,766)
Operating lease liability	(134,173)	(121,314)
Net cash provided by operating activities	<u>1,163,402</u>	436,402
Investing Activities		
Payments for purchase of furniture, equipment, and leasehold improvements	(255,678)	(336,350)
Proceeds from disposal of furniture, equipment, and leasehold improvements	-	700
Withdrawal from investments	104,193	251,271
Payments for investments	(1,391,089)	(980,195)
Proceeds from the sale or maturity of investments	1,190,314	891,697
Surrender (payout) of 457(b) annuity	-	(347,962)
Net cash used in investing activities	<u>(352,260)</u>	(520,839)
Financing Activities		
Principal payments on finance lease liability	(55,631)	(59,013)
Net change in line of credit	(640,000)	(105,000)
Paycheck Protection Program loan proceeds	-	578,100
Net cash provided (used in) by financing activities	<u>(695,631)</u>	414,087
Net change in cash and cash equivalents	115,511	329,650
Cash and cash equivalents at beginning of year	744,922	415,272
Cash and cash equivalents at end of year	<u>\$ 860,433</u>	<u>\$ 744,922</u>
Supplemental cash flow information		
Cash paid for interest	\$ 3,311	\$ 10,292
Cash paid for taxes	\$ 7,715	\$ 8,102
Noncash investing and financing transactions:		
Paycheck Protection Program loan forgiveness	\$ 578,100	\$ -

See accompanying notes.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Business

The Michigan Association of Certified Public Accountants (Association), dba MICPA, a 501(c)(6) not-for-profit organization, is a diversified professional, member-driven organization for certified public accountants and affiliated professionals. Its mission is to enhance the success of CPAs and their value to society. It contributes to the success of its members by:

- Providing education, information, resources, and leadership to its members and the public;
- Promoting high standards of quality, objectivity, and integrity in the services provided by its members;
- Partnering with educators to promote the profession;
- Actively participating in the public policy-making process;
- Increasing public awareness as trusted professional advisors;
- Encouraging diversity and inclusion in membership and leadership;
- Promoting community involvement and public service; and
- Promoting responsibility and accountability within the profession.

Accounting Method

The financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Association presents its financial statements in accordance with the accounting principles generally accepted in the United States of America for financial statements of not-for-profit organizations.

Risk and Economic Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continued to spread throughout the United States of America and the world. However, by early 2022 the pandemic appears to be coming under control. While the Association has not experienced a material adverse impact as of the date of these financial statements, the extent of the ultimate impact of the pandemic on the Association's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on members, sponsor and affiliate organizations, employees, vendors, and others, all of which cannot be reasonably predicted at this time. Management did change the methodology for presenting learning sessions and special events and is constantly monitoring when the Association will expand its live learning sessions and events to minimize any financial consequences. Live sessions have been expanded in the 2022-2023 budget.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

Net assets of the Association are classified as follows:

Net assets without donor restrictions – Net assets not subject to donor restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. The Association has no such net assets.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Association considers temporarily invested sweep account balances to be cash equivalents. Included in cash equivalents are two account balances with one bank totaling \$861,926 as of March 31, 2022 and three account balances with one bank totaling \$754,980 as of March 31, 2021. At times, the Association's cash exceeds the current insured amount under Federal Deposit Insurance Corporation (FDIC) protection.

Concentration of Credit Risk

The Association maintains money market funds with one brokerage firm. The Association does not require collateral or any other security to support its investments.

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, and trade receivables. The Association places its temporary cash investments with creditworthy, high quality financial institutions to limit exposure. Marketable securities include investments in several different funds. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risks with respect to trade receivables are limited because the Association deals with many professionals in a wide geographic area.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are generally stated at invoice amounts. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off against a reserve, which had a balance of \$7,500 as of March 31, 2022 and March 31, 2021.

Furniture, Equipment, and Leasehold Improvements

Furniture, technology, and leasehold improvements are stated at cost less accumulated depreciation or amortization and include expenditures for additions and major improvements more than \$500-\$1,000 based on the type of asset. Assets which are retired or otherwise disposed of are eliminated from the accounts, and the resulting gains or losses are reflected in operations concurrently. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets, which range from two to ten years for leasehold improvements, office furniture and fixtures, equipment, copiers, and computer software.

All costs incurred in the planning stage of developing a website are expensed as incurred, as are internal and external training and maintenance costs. Fees incurred to internet service providers in return for hosting a website on their servers are expensed over the period of benefit. Fees paid to consulting firms that develop computer systems and software are deferred and amortized on the straight-line method, which begins when the system becomes operational.

Revenue Recognition

Dues

Revenue consists of dues from members, students, and educators which provide access to a multitude of benefits. Access to these benefits is voluntary and can occur during the membership period and membership benefits are treated as part of the membership itself, rather than multiple performance obligations. The Association recognizes revenue over the membership period.

For membership-based revenue recognized over time, the straight-line method is used to allocate the performance obligations over the performance measurement period. The Association determined that this method provides a faithful depiction of the transfer of goods or services because the member is required to pay regardless of how frequently the product or membership benefits are used, and the Association stands ready to make its goods or services available to the member on a constant basis over the membership period.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Peer Review Services

Peer review services are required for firms licensed in the state of Michigan who engage in the practice of public accounting. These firms perform attest services and are required by the State Board of Accountancy to be licensed and to undergo a peer review. Revenue related to peer review administrative fees is recognized over the period services are rendered, using a straight-line method to allocate the performance obligations monthly over the performance measurement period. Revenue related to peer review scheduling fees is recognized when the peer review engagement occurs.

Membership Services

Revenue is derived from the Association's member programs; advertising through various medias and the Association's website; and sponsorships and exhibitor fees. Revenue in these areas is recognized when the program, sponsorship, or exhibit occurs or when the advertisement is placed.

Continuing Professional Education and Development

Revenue is derived from the Association delivering services such as in-person events and online learning events. Revenue from event-based professional development in the form of conferences, seminars, and webinars, is recognized at a point in time when the event occurs. Payments received in advance of the period to which they are related are recognized as revenue when services are rendered to customers.

Grant

Grant revenue represents a grant from the State of Michigan Department of Licensing and Regulatory Affairs (LARA). The resource provider receives commensurate value in exchange for the grant; therefore, this grant has been deemed reciprocal and is accounted for as an exchange transaction. The Association recognizes revenue under this grant over the grant term. The grant is funded on a cost reimbursement basis and revenue is recognized at the time an expenditure is incurred.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Disaggregation

The Association disaggregates revenue from contracts with customers into major revenue streams and based on the timing of recognizing revenue. Revenue generated from memberships and peer review administrative fees is primarily recognized over the performance obligation period, while revenue generated from sponsorships, advertising, peer review engagement fees, and event-based programs is recognized at a point in time. Of the Association's \$7,258,389 of revenue recognized from contracts with customers during the year ended March 31, 2022, revenue recognized over time amounted to \$3,868,588, while the remainder was recognized at a point in time. Of the Association's \$6,692,979 of revenue recognized from contracts with customers during the year ended March 31, 2021, revenue recognized over time amounted to \$3,859,264 while the remainder was recognized at a point in time.

Contract Balances

The timing of revenue recognition, billings, and cash collections results in contract assets, receivables, and contract liabilities. Contract assets would exist when the entity has a contract with a customer for which revenue has been recognized but customer payment is contingent on a future event. Association revenue is based on delivered goods and services and is generally limited to amounts that are not contingent on future events, therefore, not resulting in a contract asset being recorded. The Association records receivables when the right to consideration becomes unconditional. Receivables related to contracts with customers amounted to \$113,868 as of March 31, 2022, \$231,431 as of March 31, 2021, and \$178,603 as of March 31, 2020. Contract liabilities include unearned revenue when the Association receives payment from customers before revenue is recognized.

Unearned revenue was comprised of the following:

	March 31		April 1
	2022	2021	2020
Peer review program administration fees	\$ 233,216	\$ 157,524	\$ 205,381
Continuing professional education fees	103,577	95,795	98,637
Business development and other programs	93,004	189,111	216,164
Total	<u>\$ 429,797</u>	<u>\$ 442,430</u>	<u>\$ 520,182</u>

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Payment Terms

The majority of the Association's revenue streams are billed in advance of the performance obligation including member dues, peer review administrative fees, continuing education courses, sponsorships, and exhibitor fees. All other revenue streams are collected in arrears with terms generally net thirty days.

Nature of Promises to Transfer

In most cases, services that the Association contracts to transfer to customers are performed by the Association. In no case does the Association act as an agent, i.e. the Association does not provide a service of arranging for another party to transfer goods or services to the customer.

Determination of Transaction Price

The transaction price of a contract is the amount of consideration to which the Association expects to be entitled in exchange for transferring promised goods or services to a customer. Transaction prices do not include amounts collected on behalf of third parties (e.g., sales taxes). To determine the transaction price of a contract, the Association considers its customary business practices as well as the terms of the contract. For the purpose of determining transaction prices, the Association assumes that the services will be transferred to the customer as promised in accordance with existing contracts and that the contracts will not be cancelled, renewed, or modified. Most of the Association's contracts with customers have fixed transaction prices that are denominated in U.S. dollars and payable in cash.

In most cases, consideration paid for membership dues and peer review administration fees is nonrefundable. For event registrations, sponsorships, and exhibitor fees, consideration paid for the services provided is refundable up to 30 days before the event. Therefore, at the time revenue is recognized, the Association does not estimate expected refunds for services nor does the Association exclude any such amounts from revenue.

Contributed Services

A number of members have contributed significant amounts of time to the activities of the Association. The financial statements do not reflect the value of these contributed services in accordance with revenue recognition guidance for not-for-profit organizations.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and related personnel expenses are charged to programs and supporting services based on actual time spent in these areas. Certain other identifiable expenses are charged directly to major business activities. Certain occupancy costs, equipment costs, technology salaries, and depreciation have been allocated based on staff count.

Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through August 10, 2022, which is the date the financial statements were available to be issued.

Income Taxes

The Association is an organization exempt from income tax under Section 501(c)(6) of the Internal Revenue Code. Certain income of the Association, however, is subject to taxation. The Association is also subject to a proxy tax on certain legislative activities. The proxy tax was approximately \$7,600 for the year ended March 31, 2022 and approximately \$7,800 for the year ended March 31, 2021.

The Association's U.S. Federal income tax returns prior to fiscal 2019 are closed, and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Association does not believe that the results from any examination of open years would have a material effect on the Association.

As of March 31, 2022 and 2021, the Association did not recognize any interest and penalties associated with tax matters.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

2. Liquidity and Availability

The Association's working capital and cash flows have variations during the year attributable to the annual cash receipts for dues and cyclical ups and downs in continuing professional education. To manage the liquidity, the Association maintains a line of credit of \$1,000,000 with a bank that is drawn upon as needed during the year to manage cash flow and is then repaid as cash flow allows.

The following reflects the Association's financial assets as of March 31, 2022 and 2021, reduced by amounts not available for general use within one year of the statement of financial position date. Amounts not available include amounts related to contractual restrictions and amounts set aside for an operating reserve of 25% of the average budgeted revenue over two years, which could be drawn upon if the Board of Directors approves that action.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents – operating	\$ 759,682	\$ 670,293
Investments	3,288,559	3,356,541
Receivables	117,908	388,439
Total financial assets	<u>4,166,149</u>	4,415,273
Investments collateral related to line of credit	-	(640,000)
Cash reserved to repay PPP term note	-	(578,100)
Board-designated required reserve	<u>(1,749,699)</u>	(2,112,967)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,416,450</u>	<u>\$ 1,084,206</u>

3. Investments

Investments were recorded at fair market value and totaled \$3,288,559 as of March 31, 2022 and \$3,356,541 as of March 31, 2021.

The Association accounts for investments in accordance with accounting principles generally accepted in the United States of America for investments held by not-for-profit organizations. This guidance requires that all investments in debt securities and equity securities with readily determinable fair values be recorded at fair value. Marketable securities are stated at fair value based on quoted prices. Realized and unrealized gains and losses are included in the statement of activities net of investment advisor fees.

Included in investments is cash or money market funds held by one brokerage firm in the amount of \$37,783 as of March 31, 2022 and \$25,077 as of March 31, 2021.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

3. Investments (continued)

Also included in investments are exchange traded funds, which are funds that trade similar to publicly-traded securities. Similar to shares of an index mutual fund, each share of these funds represents a partial ownership in an underlying portfolio of securities intended to track a market index.

4. Fair Value Measurements

The Association values its financial assets and liabilities in accordance with the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the institute has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liabilities; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2022

4. Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value as of March 31, 2022 and 2021 are classified in the following tables in one of the three categories described above.

As of March 31, 2022	Level 1	Level 2	Level 3	Total
Cash or Money Market (Morgan Stanley)	\$ 37,783	\$ -	\$ -	\$ 37,783
Traditional Equity	1,775,535	-	-	1,775,535
Fixed Income	821,798	-	-	821,798
Alternatives	653,443	-	-	653,443
Total Portfolio Value	\$ 3,288,559	\$ -	\$ -	\$ 3,288,559

As of March 31, 2021	Level 1	Level 2	Level 3	Total
Cash or Money Market (Morgan Stanley)	\$ 25,077	\$ -	\$ -	\$ 25,077
Traditional Equity	2,243,626	-	-	2,243,626
Fixed Income	538,125	-	-	538,125
Alternatives	549,713	-	-	549,713
Total Portfolio Value	\$ 3,356,541	\$ -	\$ -	\$ 3,356,541

5. Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements consists of the following as of March 31:

	2022	2021
Furniture	\$ 442,214	\$ 409,918
Technology	569,570	529,704
Website/software development	2,917,602	2,712,783
Leasehold improvements	130,880	130,880
Finance lease right-of-use asset	268,937	268,937
Total	4,329,203	4,052,222
Less accumulated depreciation and amortization	3,252,414	2,683,020
Furniture, equipment, and leasehold improvements, net	\$ 1,076,789	\$ 1,369,202

Technology includes purchased computer equipment and software. Included in the amounts above are nondepreciable assets representing deposits for assets not yet placed in service totaling \$42,142 as of March 31, 2022 (\$30,851 included in furniture and \$11,291 included in website/software development) and \$3,371 as of March 31, 2021 (included in technology). Depreciation and amortization was \$578,942 for the year ended March 31, 2022 and \$672,057 for the year ended March 31, 2021.

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Notes to Financial Statements

March 31, 2022

6. Bank Line of Credit

The Association had available a bank line of credit for working capital and operating expenses under which it could borrow up to a maximum of \$1,000,000 with a variable interest rate per annum equal to 2.00% above BSBY as of March 31, 2022 and 2.00% above LIBOR as of March 31, 2021. This line is a demand note that matures upon issuance. There was an outstanding balance of \$0 as of March 31, 2022 and \$640,000 as of March 31, 2021. The line of credit is collateralized by all assets of the Association.

7. Paycheck Protection Program and Employee Retention Credit

Paycheck Protection Program

The Association received Paycheck Protection Program (PPP) loan proceeds in the amount of \$578,100 in March 2021. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying not for profits for an amount up to 2.5 times their average monthly payroll expenses. The loans and accrued interest are forgivable by the Small Business Administration (SBA) after an 8- to 24-week covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, utilities, and other covered operational expenses, and maintains its payroll levels.

The Association used the proceeds from the loan for qualifying expenses and received forgiveness during December 2021.

The Association accounted for this loan as a liability in accordance with FASB Accounting Standards Codification (ASC) Section 470, *Debt* until the loan was forgiven. At such time that the loan was forgiven the Association reduced the liability by the amount forgiven and recorded a gain on extinguishment of \$578,100.

Employee Retention Credit

The Association claimed the Employee Retention Credit (ERC), established as part of the CARES Act, during the year ended March 31, 2021. The ERC is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees, subject to a maximum limit per employee. The Association believes that it complied with all of the conditions required to receive and recognize the ERC. The Association recorded the ERC in the amount of \$202,081 in other revenue on the statement of activities for the year ended March 31, 2021. The Association filed an amended payroll tax return to claim a portion of the credit and recorded an accounts receivable as of March 31, 2021 of \$150,068 related to this portion of the ERC. No amounts were claimed for ERC during the year ended March 31, 2022, and no amounts were recorded in accounts receivable related to the ERC as of March 31, 2022.

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8. Retirement Plans

The Association has a safe harbor 401(k) plan which is available to all eligible employees. Under the safe harbor plan a nonelective 3% contribution is made for eligible employees. This plan also allows a 9% contribution to be made for a highly compensated employee. The expense was approximately \$83,000 for the year ended March 31, 2022 and approximately \$81,000 for the year ended March 31, 2021.

The Association also makes available a 457(b) plan to a select group of management employees. Deferral to this plan is from base salary. All contributed amounts remain the property of the Association and are subject to claims of the Association's creditors in the event of insolvency. Deferred funds held by the Association are adjusted for earnings and losses according to the performance of the investment. Distribution of these funds is allowed only after separation of employment.

9. Lease Commitments

Facility Lease

Effective August 1, 2019, the Association is leasing 11,922 square feet in facilities located at 888 West Big Beaver, Troy, MI 48084 for 150 months (includes four and a half months free rent and increasing rental amounts throughout the term of the lease) with total lease payments of \$3,356,787, plus operating expense rent as described in the lease agreement (for amounts in excess of base year operating expenses). This lease has been classified as an operating lease. Provided the Association is not in default beyond any applicable notice and cure period as of the date of the exercise of the renewal option and the Association is in possession of the premises, the Association shall have the right to renew the term of the lease two times for a period of five years each. The renewal lease rate will start at \$26.50 per square foot and increase by \$.50 per year up to \$31.00 per square foot.

Copier Lease

As of March 31, 2019, the Association leased copiers and a Duplo cutting machine under a capital lease. Accumulated depreciation and amortization as of March 31, 2022 included \$255,489 related to these leased assets (\$201,702 as of March 31, 2021). Upon the adoption of ASU 2016-02 effective April 1, 2019, this lease has been classified as a finance lease. See below for additional disclosures related to this finance lease.

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Notes to Financial Statements

March 31, 2022

9. Lease Commitments (continued)

Amounts recognized in the financial statements for operating and finance leases are as follows for the year ended March 31:

Lease cost	2022	2021
Finance lease (copier lease) cost:		
Amortization of right-of-use assets	\$ 53,787	\$ 53,787
Interest on lease liabilities	914	2,222
Total finance lease cost	<u>\$ 54,701</u>	<u>\$ 56,009</u>
 Operating lease (building lease) cost	 <u>\$ 268,543</u>	 <u>\$ 268,543</u>

Cash and noncash activities

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 251,356	\$ 245,103
Operating cash flows from finance leases	\$ 914	\$ 2,222
Financing cash flows from finance leases	\$ 55,631	\$ 59,013

Future payments due under operating and finance leases as of March 31, 2022 are as follows for each fiscal year:

	Operating	Finance
2023	\$ 257,316	\$ 15,871
2024	263,278	-
2025	269,238	-
2026	275,200	-
2027	281,160	-
Thereafter	<u>1,442,557</u>	<u>-</u>
 Total	 <u>2,788,749</u>	 <u>15,871</u>
 Effects of discounting	 <u>(634,049)</u>	 <u>(58)</u>
Lease liabilities recognized	<u>\$ 2,154,700</u>	<u>\$ 15,813</u>

As of March 31, 2022, the weighted-average remaining lease term for the operating lease is 9.8 years, while the weighted-average remaining lease term for the finance lease is 0.3 years.

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Notes to Financial Statements

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9. Lease Commitments (continued)

The weighted average discount rate associated with the finance lease is 1.99%, which is the rate implicit in the lease. The weighted average discount rate associated with the operating lease is 5.26%, which is the Association's incremental borrowing rate at the inception of the lease.

10. Related Party Transactions

Michigan Accountancy Foundation

The Michigan Accountancy Foundation's (Foundation) mission is to encourage excellence in the public accounting profession by supporting accounting education. The Foundation's financial statements are not combined with those of the Association. The Association provides donated general and administrative services to the Foundation. Amounts billed to the Foundation for general and administrative expense services were \$0 for the year ended March 31, 2022 and \$28,809 for the year ended March 31, 2021. In addition, the Association made unrestricted contributions to the Foundation of \$2,500 for the year ended March 31, 2022 and March 31, 2021. Unrestricted funding is used by the Foundation to award scholarships to accounting students completing their final/fifth year of education.

Other

In the ordinary course of business, the Association compensates various Board Members' firms for services rendered outside those as a director.

11. Litigation

The Association is a litigant in a legal claim. The matter has been settled, with the final resolution completed on July 28, 2022, and the resolution did not have a material effect on the Association's financial statements.