

Audited Financial Statements

The Michigan Association of  
Certified Public Accountants

*Years Ended March 31, 2024 and 2023  
with Report of Independent Auditors*

The Michigan Association of  
Certified Public Accountants

Audited Financial Statements

Years Ended March 31, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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.

*Andrew Hoopu Paulik PLC*

Okemos, Michigan  
July 25, 2024

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

### 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.

#### 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.

The Michigan Association of Certified Public Accountants

Statements of Financial Position

|   | <b>March 31</b>     |                     |
|---|---------------------|---------------------|
|   | <b>2024</b>         | <b>2023</b>         |
| <b>Assets</b>   |                     |                     |
| Cash and cash equivalents                             | \$ 1,053,623        | \$ 877,029          |
| Accounts receivable, net                              | 46,288              | 96,263              |
| Deferred costs and prepaid expenses                   | 197,736             | 137,255             |
| Investments   | 3,462,009           | 3,092,501           |
| Furniture, equipment, and leasehold improvements, net | 844,511             | 998,285             |
| Operating lease right-of-use asset, net               | 1,681,058           | 1,847,885           |
| Total assets  | <u>\$ 7,285,225</u> | <u>\$ 7,049,218</u> |
| <br><b>Liabilities and Net Assets</b>                 |                     |                     |
| Accounts payable                                      | \$ 193,511          | \$ 313,174          |
| Accrued compensation and withheld payroll taxes       | 275,488             | 285,168             |
| Accrued other liabilities                             | 23,873              | 25,413              |
| Unearned program revenue                              | 482,744             | 511,632             |
| Unearned membership dues                              | 842,118             | 817,265             |
| Finance lease liability                               | 21,186              | 22,222              |
| Operating lease liability                             | 1,845,798           | 2,007,358           |
| Total liabilities                                     | <u>3,684,718</u>    | <u>3,982,232</u>    |
| Net assets without donor retrictions                  | <u>3,600,507</u>    | <u>3,066,986</u>    |
| Total liabilities and net assets                      | <u>\$ 7,285,225</u> | <u>\$ 7,049,218</u> |

The Michigan Association of Certified Public Accountants

Statements of Activities

|  | <b>Year Ended March 31</b> |                     |
|--|----------------------------|---------------------|
|  | <b>2024</b>                | <b>2023</b>         |
| <b>Operating Revenue</b>                                 |                            |                     |
| Continuing professional education and development        | \$ 2,887,940               | \$ 2,759,708        |
| Dues   | 3,331,550                  | 3,237,522           |
| Peer review services                                     | 514,654                    | 447,146             |
| Member services  | 310,035                    | 286,297             |
| Interest and dividend income                             | 154,332                    | 161,418             |
| Grant  | 165,791                    | 365,240             |
| Other  | 42,250                     | 31,589              |
| Total operating revenue                                  | <u>7,406,552</u>           | <u>7,288,920</u>    |
| <b>Operating Expenses</b>                                |                            |                     |
| Program services:  |                            |                     |
| Professional education and development                   | 2,818,351                  | 2,933,899           |
| Membership services, recruitment, and retention          | 2,330,309                  | 2,669,130           |
| Peer review services                                     | 460,853                    | 470,714             |
| Total program services                                   | <u>5,609,513</u>           | <u>6,073,743</u>    |
| Supporting activities – general management               | <u>1,517,078</u>           | <u>1,318,801</u>    |
| Total operating expenses                                 | <u>7,126,591</u>           | <u>7,392,544</u>    |
| Operating income (loss)                                  | 279,961                    | (103,624)           |
| <b>Other Revenue and Expenses</b>                        |                            |                     |
| Realized and unrealized gain (loss) on investments, net  | <u>253,560</u>             | <u>(357,475)</u>    |
| Change in net assets without donor restrictions          | 533,521                    | (461,099)           |
| Net assets without donor restrictions, beginning of year | 3,066,986                  | 3,528,085           |
| Net assets without donor restrictions, end of year       | <u>\$ 3,600,507</u>        | <u>\$ 3,066,986</u> |

The Michigan Association of Certified Public Accountants

Statement of Functional Expenses

Year Ended March 31, 2024

|                                     | Program Services                             |                         |                        | Supporting<br>Activities | Total        |
|-------------------------------------|--|-------------------------|------------------------|--------------------------|--------------|
|                                     | Professional<br>Education and<br>Development | Peer Review<br>Services | Membership<br>Services | General<br>Management    |              |
| <b>Operating Expenses</b>           |  |                         |                        |                          |              |
| Salaries and wages                  | \$ 686,636                                   | \$ 207,211              | \$ 1,024,791           | \$ 828,179               | \$ 2,746,817 |
| Benefits                            | 88,772                                       | 26,306                  | 120,397                | 92,102                   | 327,577      |
| Payroll taxes                       | 53,324                                       | 16,655                  | 78,463                 | 68,451                   | 216,893      |
| Total salaries and related expenses | 828,732                                      | 250,172                 | 1,223,651              | 988,732                  | 3,291,287    |
| Professional fees                   | 667,782                                      | 101,006                 | 164,973                | 135,078                  | 1,068,839    |
| Presenter fees                      | 511,299                                      | 2,280                   | 18,400                 | -                        | 531,979      |
| Supplies                            | 14,944                                       | 1,464                   | 18,105                 | 31,553                   | 66,066       |
| Communication                       | 14,674                                       | 4,167                   | 36,515                 | 9,720                    | 65,076       |
| Marketing                           | 30,941                                       | 178                     | 211,625                | 2,275                    | 245,019      |
| Occupancy                           | 116,687                                      | 31,155                  | 140,024                | 62,194                   | 350,060      |
| Dues and subscriptions              | 14,172                                       | 4,918                   | 59,148                 | 23,927                   | 102,165      |
| Equipment                           | 54,326                                       | 14,505                  | 65,191                 | 31,498                   | 165,520      |
| Transportation                      | 87,330                                       | 458                     | 40,165                 | 30,645                   | 158,598      |
| Meetings                            | 265,216                                      | 3,845                   | 86,073                 | 75,612                   | 430,746      |
| Other                               | 82,161                                       | 11,972                  | 110,334                | 56,508                   | 260,975      |
| Depreciation                        | 130,087                                      | 34,733                  | 156,105                | 69,336                   | 390,261      |
| Total operating expenses            | \$ 2,818,351                                 | \$ 460,853              | \$ 2,330,309           | \$ 1,517,078             | \$ 7,126,591 |

See accompanying notes.



The Michigan Association of Certified Public Accountants

Statement of Functional Expenses

Year Ended March 31, 2023

|                                     | Program Services                             |                         |                        | Supporting<br>Activities | Total        |
|-------------------------------------|--|-------------------------|------------------------|--------------------------|--------------|
|                                     | Professional<br>Education and<br>Development | Peer Review<br>Services | Membership<br>Services | General<br>Management    |              |
| <b>Operating Expenses</b>           |  |                         |                        |                          |              |
| Salaries and wages                  | \$ 701,633                                   | \$ 220,942              | \$ 1,227,785           | \$ 649,940               | \$ 2,800,300 |
| Benefits                            | 91,691                                       | 30,672                  | 142,129                | 80,093                   | 344,585      |
| Payroll taxes                       | 53,727                                       | 17,469                  | 99,257                 | 54,610                   | 225,063      |
| Total salaries and related expenses | 847,051                                      | 269,083                 | 1,469,171              | 784,643                  | 3,369,948    |
| Professional fees                   | 857,097                                      | 88,065                  | 166,100                | 111,376                  | 1,222,638    |
| Presenter fees                      | 510,778                                      | -                       | 14,850                 | -                        | 525,628      |
| Supplies                            | 8,310  | 896                     | 23,383                 | 38,959                   | 71,548       |
| Communication                       | 15,724                                       | 4,796                   | 71,431                 | 11,044                   | 102,995      |
| Marketing                           | 27,131                                       | 334                     | 202,291                | 5,807                    | 235,563      |
| Occupancy                           | 103,520                                      | 30,711                  | 149,529                | 61,307                   | 345,067      |
| Dues and subscriptions              | 5,383  | 2,025                   | 48,757                 | 13,263                   | 69,428       |
| Equipment                           | 63,752                                       | 18,913                  | 92,086                 | 42,920                   | 217,671      |
| Transportation                      | 72,903                                       | 313                     | 34,763                 | 27,905                   | 135,884      |
| Meetings                            | 223,912                                      | 3,491                   | 108,285                | 46,923                   | 382,611      |
| Other                               | 49,257                                       | 7,860                   | 73,145                 | 86,365                   | 216,627      |
| Depreciation                        | 149,081                                      | 44,227                  | 215,339                | 88,289                   | 496,936      |
| Total operating expenses            | \$ 2,933,899                                 | \$ 470,714              | \$ 2,669,130           | \$ 1,318,801             | \$ 7,392,544 |

See accompanying notes.

# The Michigan Association of Certified Public Accountants

## Statements of Cash Flows

|   | <b>Year Ended March 31</b> |              |
|---|----------------------------|--------------|
|   | <b>2024</b>                | <b>2023</b>  |
| <b>Operating Activities</b>   |                            |              |
| Change in net assets without donor restrictions   | \$ 533,521                 | \$ (461,099) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                            |              |
| Reduction in carrying amount of operating lease right-of-use asset                          | 166,827                    | 158,733      |
| Depreciation and amortization of finance lease right-of-use asset                           | 390,261                    | 496,936      |
| Realized and unrealized loss (gain) on investments  | (268,829)                  | 342,849      |
| Changes in operating assets and liabilities:  |                            |              |
| Accounts receivable   | 49,975                     | 21,645       |
| Deferred costs and prepaid expenses   | (60,481)                   | 32,866       |
| Accounts payable  | (119,663)                  | (50,651)     |
| Accrued liabilities   | (11,220)                   | 83,841       |
| Unearned revenue  | (4,035)                    | 97,632       |
| Operating lease liability   | (161,560)                  | (147,342)    |
| Net cash provided by operating activities   | 514,796                    | 575,410      |
| <b>Investing Activities</b>   |                            |              |
| Payments for purchase of furniture, equipment, and leasehold improvements                   | (232,858)                  | (394,623)    |
| Payments for investments  | (1,478,008)                | (825,682)    |
| Proceeds from the sale or maturity of investments   | 1,377,329                  | 678,891      |
| Net cash used in investing activities   | (333,537)                  | (541,414)    |
| <b>Financing Activities</b>   |                            |              |
| Principal payments on finance lease liability   | (4,665)                    | (17,400)     |
| Net cash used in financing activities   | (4,665)                    | (17,400)     |
| Net change in cash and cash equivalents   | 176,594                    | 16,596       |
| Cash and cash equivalents at beginning of year  | 877,029                    | 860,433      |
| Cash and cash equivalents at end of year  | \$ 1,053,623               | \$ 877,029   |
| <b>Supplemental cash flow information</b>   |                            |              |
| Cash paid for interest  | \$ 2,783                   | \$ 5,750     |
| Cash paid for taxes   | 8,619                      | 7,711        |
| Noncash investing and financing transactions:   |                            |              |
| Equipment right-of-use asset acquired in finance lease                                      | 3,629                      | 23,809       |

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

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

#### **Cash and Cash Equivalents**

For the purpose of the statements of cash flows, the Association considers temporarily invested sweep accounts and certificates of deposit to be cash equivalents. Included in cash equivalents are three account balances with one bank totaling \$338,902 and one account balance with another bank totaling \$746,076 as of March 31, 2024 and two account balances with one bank totaling \$267,610 as of March 31, 2023. Also included in cash and cash equivalents as of March 31, 2023 are certificates of deposit totaling \$600,000 (no certificates of deposit held as of March 31, 2024). 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.

#### **Accounts Receivable**

Accounts receivable are stated at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding net of charge-offs. The allowance for credit losses is an estimate of amounts that may not be collectible. The Association determines the need for an allowance for credit losses based on an evaluation of the accounts receivable. In determining the amount of the allowance as of the balance sheet date, the Association develops a loss rate based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged off against the allowance when the receivable is deemed uncollectible. The allowance for credit losses was \$7,500 as of March 31, 2024 and 2023.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

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

#### **Furniture, Equipment, and Leasehold Improvements**

Furniture, equipment, 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.

##### *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.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

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

#### **Revenue Recognition (continued)**

##### *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.

##### *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 scheduling fees, and event-based programs is recognized at a point in time. Of the Association's \$7,252,220 of revenue recognized from contracts with customers during the year ended March 31, 2024, revenue recognized over time amounted to \$3,904,220, while the remainder was recognized at a point in time. Of the Association's \$7,127,502 of revenue recognized from contracts with customers during the year ended March 31, 2023, revenue recognized over time amounted to \$3,942,668, while the remainder was recognized at a point in time.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

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

#### Revenue Recognition (continued)

##### *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 \$44,416 as of March 31, 2024, \$83,284 as of March 31, 2023, and \$113,868 as of March 31, 2022. Contract liabilities include unearned revenue when the Association receives payment from customers before revenue is recognized.

Unearned revenue was comprised of the following:

|   | <b>March 31</b>   |                   | <b>April 1</b>    |
|---|-------------------|-------------------|-------------------|
|   | <b>2024</b>       | <b>2023</b>       | <b>2022</b>       |
| Peer review program administration fees | \$ 283,425        | \$ 298,064        | \$ 233,216        |
| Continuing professional education fees  | 116,458           | 111,298           | 103,577           |
| Business development and other programs | 82,861            | 102,270           | 93,004            |
| Total                                   | <u>\$ 482,744</u> | <u>\$ 511,632</u> | <u>\$ 429,797</u> |

##### *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.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

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

#### **Revenue Recognition (continued)**

##### *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.

#### **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.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

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

#### **Leases**

Leases are classified as operating leases or finance leases at the lease commencement date. The Association records leases on the statements of financial position in the form of a lease liability for the present value of future minimum payments under the lease terms and right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based on the rate implicit in the lease or the incremental borrowing rates the Association could obtain for similar loans as of the date of commencement or renewal. The Association does not record leases on the statements of financial position that are classified as short term (less than one year).

At lease inception, the Association determines the lease term by considering the minimum lease term and all optional renewal periods that the Association is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis and any impairment of the right-of-use asset. Operating lease rent expense is included in occupancy expense on the Association's statements of functional expenses. The amortization of the right-of-use asset arising from finance leases is expensed through depreciation expense and the interest on the related lease liability is expensed through other expense on the statements of functional expenses.

#### **Subsequent Events**

The Association has evaluated events and transactions for potential recognition or disclosure through July 25, 2024, 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 \$7,700 for the years ended March 31, 2024 and March 31, 2023.

The Association's U.S. Federal income tax returns prior to fiscal 2021 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.



# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2024

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

#### **Income Taxes (continued)**

As of March 31, 2024 and 2023, the Association did not recognize any interest and penalties associated with tax matters.

#### **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

#### **Adoption of New Accounting Standard**

On April 1, 2023, the Association adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including accounts receivable. Such assets are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The adoption of this standard did not have a significant impact on the Association and resulted in expanded financial statement footnote disclosures.

### **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, 2024 and 2023, reduced by amounts not available for general use within one year of the statement of financial position date.

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### 2. Liquidity and Availability (continued)

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>2024</u>         | <u>2023</u>         |
|---|---------------------|---------------------|
| Cash and cash equivalents – operating   | \$ 963,922          | \$ 807,659          |
| Investments   | 3,462,009           | 3,092,501           |
| Receivables   | 46,288              | 96,263              |
| Total financial assets  | <u>4,472,219</u>    | <u>3,996,423</u>    |
| Board-designated required reserve   | <u>(1,825,856)</u>  | <u>(1,800,984)</u>  |
| Financial assets available to meet cash needs<br>for general expenditures within one year | <u>\$ 2,646,363</u> | <u>\$ 2,195,439</u> |

### 3. Investments

Investments were recorded at fair market value and totaled \$3,462,009 as of March 31, 2024 and \$3,092,501 as of March 31, 2023.

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 \$72,122 as of March 31, 2024 and \$44,540 as of March 31, 2023.

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).

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**4. Fair Value Measurements (continued)**

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.

Financial assets and liabilities carried at fair value as of March 31, 2024 and 2023 are classified in the following tables in one of the three categories described above.

| <b>As of March 31, 2024</b>              | <b>Level 1</b>      | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>        |
|--|---------------------|----------------|----------------|---------------------|
| Cash or money market<br>(Morgan Stanley) | \$ 72,122           | \$ -           | \$ -           | \$ 72,122           |
| Equity                                   | 1,620,401           | -              | -              | 1,620,401           |
| Fixed income                             | 1,769,486           | -              | -              | 1,769,486           |
| Total portfolio value                    | <u>\$ 3,462,009</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 3,462,009</u> |

| <b>As of March 31, 2023</b>              | <b>Level 1</b>      | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>        |
|--|---------------------|----------------|----------------|---------------------|
| Cash or money market<br>(Morgan Stanley) | \$ 44,540           | \$ -           | \$ -           | \$ 44,540           |
| Equity                                   | 2,019,612           | -              | -              | 2,019,612           |
| Fixed income                             | 1,028,349           | -              | -              | 1,028,349           |
| Total portfolio value                    | <u>\$ 3,092,501</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 3,092,501</u> |

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**5. Furniture, Equipment, and Leasehold Improvements**

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

|   | <u>2024</u>       | <u>2023</u>       |
|---|-------------------|-------------------|
| Furniture   | \$ 411,362        | \$ 411,362        |
| Technology  | 675,810           | 603,932           |
| Website/software development                          | 3,399,681         | 3,251,383         |
| Leasehold improvements                                | 150,652           | 150,652           |
| Finance lease right-of-use asset                      | 27,438            | 23,809            |
| Total   | <u>4,664,943</u>  | <u>4,441,138</u>  |
| Less accumulated depreciation and amortization        | <u>3,820,432</u>  | <u>3,442,853</u>  |
| Furniture, equipment, and leasehold improvements, net | <u>\$ 844,511</u> | <u>\$ 998,285</u> |

Technology includes purchased computer equipment and software. Within this category are non-depreciable assets representing deposits for assets not yet placed in service totaling \$14,376 as of March 31, 2024 and \$3,271 as of March 31, 2023. Depreciation and amortization was \$390,261 for the year ended March 31, 2024 and \$496,936 for the year ended March 31, 2023.

**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, 2024 and March 31, 2023. This line is a demand note that matures upon issuance. There was an outstanding balance of \$0 as of March 31, 2024 and March 31, 2023. The line of credit is collateralized by all assets of the Association.

**7. 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 \$87,400 for the year ended March 31, 2024 and approximately \$83,900 for the year ended March 31, 2023.

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**8. 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.

*Equipment Leases*

During the year ended March 31, 2023, the Association entered into an equipment lease for a copier which has been classified as a finance lease. The lease has a five-year term and requires monthly payments of \$488. During the year ended March 31, 2024, the Association entered into an equipment lease for a postage meter which has been classified as a finance lease. The lease has a five-year term and requires monthly payments of \$169.

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

| <b>Lease cost</b>                     | <b>2024</b>       | <b>2023</b>       |
|---------------------------------------|-------------------|-------------------|
| Finance lease cost:                   |                   |                   |
| Amortization of right-of-use assets   | \$ 5,487          | \$ 15,431         |
| Interest on lease liabilities         | <u>2,338</u>      | <u>876</u>        |
| Total finance lease cost              | <u>\$ 7,825</u>   | <u>\$ 16,307</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 | \$ 263,278 | \$ 257,317 |
| Operating cash flows from finance leases   | 2,338      | 876        |
| Financing cash flows from finance leases   | 4,665      | 17,400     |

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### 8. Lease Commitments (continued)

Future payments due under operating and finance leases as of March 31, 2024 are as follows for each fiscal year:

|                              | <u>Operating</u>    | <u>Finance</u>   |
|------------------------------|---------------------|------------------|
| 2025                         | \$ 269,238          | \$ 6,965         |
| 2026                         | 275,200             | 6,965            |
| 2027                         | 281,160             | 6,965            |
| 2028                         | 287,122             | 4,525            |
| 2029                         | 293,083             | -                |
| Thereafter                   | 862,358             | -                |
| Total                        | <u>2,268,161</u>    | <u>25,420</u>    |
| Effects of discounting       | <u>(422,363)</u>    | <u>(4,234)</u>   |
| Lease liabilities recognized | <u>\$ 1,845,798</u> | <u>\$ 21,186</u> |

As of March 31, 2024, the weighted-average remaining lease term for the operating lease is 7.8 years, while the weighted-average remaining lease term for the finance leases is 3.6 years.

The weighted average discount rate associated with the finance leases is 9.9%. The weighted average discount rate associated with the operating lease is 5.26%.

### 9. 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 \$5,197 for the year ended March 31, 2024 and \$10,230 for the year ended March 31, 2023. In addition, the Association made unrestricted contributions to the Foundation of \$2,500 for the year ended March 31, 2024 and 2023. 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.