

Audited Financial Statements

The Michigan Association of  
Certified Public Accountants

*Years Ended March 31, 2020 and 2019  
with Report of Independent Auditors*

The Michigan Association of  
Certified Public Accountants

Audited Financial Statements

Years Ended March 31, 2020 and 2019

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## Report of Independent Auditors

Board of Directors  
The Michigan Association of Certified  
Public Accountants

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, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, on April 1, 2019, the Michigan Association of Certified Public Accountants implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all subsequent amendments; FASB ASU No. 2016-02, *Leases (Topic 842)*; and FASB No. 2018-11, *Leases – Targeted Improvements*. Our opinion is not modified with respect to this matter.

*Andrews Hooper Pavlik PLC*

Okemos, Michigan  
August 19, 2020

The Michigan Association of Certified Public Accountants

Statements of Financial Position

	<b>March 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 415,272	\$ 303,036
Accounts receivable (less allowance for doubtful accounts of \$15,000)	198,185	215,576
Deferred costs and prepaid expenses	188,273	218,426
Investments	2,612,149	3,658,833
Furniture, equipment, and leasehold improvements, net	1,705,942	890,764
Operating lease right-of-use asset, net	2,302,732	-
Total assets	<u>\$ 7,422,553</u>	<u>\$ 5,286,635</u>
 <b>Liabilities and Net Assets</b>		
Accounts payable	\$ 415,512	\$ 200,124
Accrued compensation and withheld payroll taxes	114,368	138,461
Accrued other liabilities	487,786	366,134
Bank line of credit	745,000	210,000
Unearned program revenue	520,182	667,526
Unearned membership dues	803,867	796,346
Copier capital lease payable	-	179,450
Finance lease liability	130,457	-
Operating lease liability	2,410,187	-
Total liabilities	<u>5,627,359</u>	<u>2,558,041</u>
 Net assets without donor retrictions	<u>1,795,194</u>	<u>2,728,594</u>
Total liabilities and net assets	<u>\$ 7,422,553</u>	<u>\$ 5,286,635</u>

The Michigan Association of Certified Public Accountants

Statements of Activities

	<b>Year Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating Revenue</b>		
Continuing professional education and development	\$ 3,943,820	\$ 3,988,208
Dues	3,211,010	3,145,851
Peer review services	411,954	398,108
Member services	245,651	218,602
Interest and dividend income	90,955	154,750
Grant	397,846	445,012
Other	97,965	82,174
	<hr/>	<hr/>
Total operating revenue	8,399,201	8,432,705
<b>Operating Expenses</b>		
Program services:		
Professional education and development	4,178,411	3,996,274
Membership services, recruitment, and retention	2,601,636	2,301,760
Peer review services	414,276	405,132
Community outreach	79,519	78,173
Total program services	<hr/> 7,273,842	<hr/> 6,781,339
Supporting activities – general management	<hr/> 1,723,156	<hr/> 1,853,522
Total operating expenses	<hr/> 8,996,998	<hr/> 8,634,861
Operating loss	(597,797)	(202,156)
<b>Other Revenue and Expenses</b>		
Realized and unrealized loss on investments, net	<hr/> (335,603)	<hr/> (209,976)
Change in net assets without donor restrictions	(933,400)	(412,132)
Net assets without donor restrictions, beginning of year	2,728,594	3,140,726
Net assets without donor restrictions, end of year	<hr/> <b>\$ 1,795,194</b>	<hr/> <b>\$ 2,728,594</b>

See accompanying notes.

The Michigan Association of Certified Public Accountants

Statement of Functional Expenses

Year Ended March 31, 2020

	Program Services				Supporting Activities	Total
	Professional Education and Development	Peer Review Services	Membership Services	Community Outreach	General Management	
<b>Operating Expenses</b>						
Salaries and wages	\$ 951,733	\$ 167,636	\$ 1,174,153	\$ 3,860	\$ 938,526	\$ 3,235,908
Benefits	122,950	29,811	125,198	217	138,488	416,664
Payroll taxes	79,363	13,048	89,207	321	61,901	243,840
Total salaries and related expenses	<u>1,154,046</u>	<u>210,495</u>	<u>1,388,558</u>	<u>4,398</u>	<u>1,138,915</u>	<u>3,896,412</u>
Professional fees	461,479	122,019	280,760	-	147,310	1,011,568
Presenter fees	712,790	-	4,730	-	-	717,520
Supplies	80,227	1,276	37,483	-	64,520	183,506
Communication	28,033	2,476	40,855	-	10,414	81,778
Marketing	210,685	1,083	75,508	-	17,679	304,955
Occupancy	167,952	18,843	131,085	-	58,989	376,869
Dues and subscriptions	9,372	519	25,447	-	26,584	61,922
Equipment	116,063	13,022	90,585	-	44,130	263,800
Transportation	157,979	2,343	69,130	-	22,960	252,412
Meetings	773,893	5,693	180,388	75,121	48,086	1,083,181
Other	65,122	9,494	89,189	-	59,006	222,811
Depreciation and loss on disposal	240,770	27,013	187,918	-	84,563	540,264
Total operating expenses	<u>\$ 4,178,411</u>	<u>\$ 414,276</u>	<u>\$ 2,601,636</u>	<u>\$ 79,519</u>	<u>\$ 1,723,156</u>	<u>\$ 8,996,998</u>

See accompanying notes.

The Michigan Association of Certified Public Accountants

Statement of Functional Expenses

Year Ended March 31, 2019

	Program Services				Supporting Activities	Total
	Professional Education and Development	Peer Review Services	Membership Services	Community Outreach	General Management	
<b>Operating Expenses</b>						
Salaries and wages	\$ 870,435	\$ 164,387	\$ 1,116,075	\$ 3,860	\$ 964,337	\$ 3,119,094
Benefits	113,110	29,273	127,027	217	137,240	406,867
Payroll taxes	69,012	13,078	90,373	321	69,293	242,077
Total salaries and related expenses	1,052,557	206,738	1,333,475	4,398	1,170,870	3,768,038
Professional fees	346,682	127,712	205,946	-	181,138	861,478
Presenter fees	786,584	-	3,367	-	46	789,997
Supplies	79,834	283	23,442	-	69,672	173,231
Communication	10,224	847	7,194	-	63,305	81,570
Marketing	242,654	2,997	69,381	-	16,984	332,016
Occupancy	144,300	16,190	112,624	-	50,680	323,794
Dues and subscriptions	8,793	302	18,554	-	27,331	54,980
Equipment	87,273	9,792	68,115	-	30,652	195,832
Transportation	160,606	5,336	56,874	-	26,525	249,341
Meetings	820,149	5,394	189,151	73,775	33,966	1,122,435
Other	52,918	6,687	54,651	-	110,809	225,065
Depreciation and loss on disposal	203,700	22,854	158,986	-	71,544	457,084
Total operating expenses	\$ 3,996,274	\$ 405,132	\$ 2,301,760	\$ 78,173	\$ 1,853,522	\$ 8,634,861

See accompanying notes.

The Michigan Association of Certified Public Accountants

Statements of Cash Flows

	<b>Year Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Change in net assets without donor restrictions	\$ (933,400)	\$ (412,132)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Operating lease right-of-use asset amortization	141,641	-
Depreciation and amortization of finance lease right-of-use asset	533,046	457,084
Bad debt expense	4,400	-
Realized and unrealized loss on investments	321,845	196,225
Loss on disposal of fixed assets	7,218	-
Changes in operating assets and liabilities:		
Accounts receivable	12,991	(78,870)
Deferred costs and prepaid expenses	30,153	47,542
Accounts payable	215,388	18,574
Accrued liabilities	66,407	(7,540)
Unearned revenue	(139,823)	82,626
Operating lease liability	(34,186)	-
Net cash provided by operating activities	<u>225,680</u>	<u>303,509</u>
<b>Investing Activities</b>		
Payments for purchase of furniture, equipment, and leasehold improvements	(1,355,442)	(476,038)
Withdrawal from investments	485,225	451,400
Payments for investments	(2,229,641)	(2,305,299)
Proceeds from the sale or maturity of investments	2,152,445	2,166,757
Surrender of 457(b) annuity	347,962	-
Net cash used in investing activities	<u>(599,451)</u>	<u>(163,180)</u>
<b>Financing Activities</b>		
Payments on copier capital lease	-	(52,418)
Principal payments on finance lease liability	(48,993)	-
Net change in line of credit	535,000	210,000
Net change in commercial card program liability	-	(60,000)
Net cash provided by financing activities	<u>486,007</u>	<u>97,582</u>
Net change in cash and cash equivalents	112,236	237,911
Cash and cash equivalents at beginning of year	303,036	65,125
Cash and cash equivalents at end of year	<u>\$ 415,272</u>	<u>\$ 303,036</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 8,616	\$ 4,127
Cash paid for taxes	\$ 8,247	\$ 13,368
Noncash investing and financing transactions:		
Operating lease liability arising from obtaining right-of-use asset	\$ 2,444,373	\$ -

See accompanying notes.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

### **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 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, continues to spread throughout the United States of America and the globe. Many State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibit in-person work and professional educational activities for most businesses and industries including nonprofit entities, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak is disrupting and affecting the Association's normal in-person activities. 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 other constituents, all of which cannot be reasonably predicted at this time. While management reasonably expects the COVID-19 outbreak to negatively impact the Association's net assets and changes in net assets, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

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

#### **Risk and Economic Uncertainties (continued)**

In response to COVID-19, the Association and its board and executive committee have increased the frequency of meetings to review the current financial position, financial forecasts, and scenario planning. Staffing and discretionary expense contingencies have been put in place to mitigate potential revenue shortfalls. The Association's liquidity management plans include taking advantage of the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) for approximately \$195,000. In addition, the Association has an available line of credit of \$1,000,000 with no outstanding balance as of August 19, 2020.

#### **Adoption of Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single comprehensive model for accounting for revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services.

To achieve that core principle, an entity should apply the five-step model in revenue recognition: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; (5) Recognize revenue when (or as) the entity satisfies a performance obligation. The guidance in Topic 606 also requires comprehensive disclosures to help the users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The Association adopted the new guidance effective April 1, 2019 utilizing the modified retrospective method of transition. There was no impact of adopting the new guidance; a cumulative adjustment to net assets as of April 1, 2019 was not required to reflect the effect of the new guidance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of April 1, 2019. Adoption of the new guidance did not result in changes to the Association's accounting for revenue recognition and trade receivables.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Association adopted the provisions of ASU 2018-08 effective April 1, 2019. The ASU clarifies and improves the scope and accounting guidance to assist entities in evaluating whether contributions of cash should be accounted for as contributions under the scope of Topic 958 or as an exchange transaction subject to other guidance. The adoption did not have any impact on the financial statements.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

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

#### Adoption of Accounting Standards (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases in the balance sheet. Additionally, in July 2018 the FASB issued ASU 2018-11, *Leases (Topic 842) – Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements, and instead to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Association adopted ASU 2016-02 and its related amendments as of April 1, 2019. No prior year amounts were restated, and there was no cumulative effect adjustment to the opening balance of net assets required. The Association has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Association accounted for its existing capital lease as a finance lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the finance lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (not applicable) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. The related policy elections made by the Association can be found in the Furniture, Equipment, and Leasehold Improvements section within Note 1, and the additional lease disclosures can be found in Note 8.

#### 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 \$425,371 as of March 31, 2020 and \$366,714 as of March 31, 2019. At times, the Association's cash exceeds the current insured amount under Federal Deposit Insurance Corporation (FDIC) protection.

At the end of the 2020 fiscal year, the annuity investment held to secure the 457(b) liability to the President & CEO was surrendered and placed in cash. At the time of the surrender, the cash value of the annuity was \$347,962, which is included in the bank balance reflected above as of March 31, 2020. This amount was paid to the President & CEO on April 1, 2020.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

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

#### **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 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.

#### **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.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

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

#### **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 engagement 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.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

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

#### Revenue Recognition (continued)

##### *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*

In accordance with ASU 2014-09, 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 \$8,308,246 of revenue recognized from contracts with customers during the year ended March 31, 2020, revenue recognized over time amounted to \$3,502,944, 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 \$178,603 as of March 31, 2020 and \$179,465 as of March 31, 2019. Contract liabilities include unearned revenue when the Association receives payment from customers before revenue is recognized.

Unearned revenue was comprised of the following as of March 31:

	2020	2019
Peer review program administration fees	\$ 205,381	\$ 212,362
Continuing professional education fees	98,637	178,233
Business development and other programs	216,164	276,931
Total	<u>\$ 520,182</u>	<u>\$ 667,526</u>

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

### **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, 2020

### **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.

#### **Advertising and Promotions**

The costs of advertising and promotions, which are expensed as incurred, amounted to \$20,050 for the year ended March 31, 2020 and \$20,400 for the year ended March 31, 2019.

#### **Subsequent Events**

The Association has evaluated events and transactions for potential recognition or disclosure through August 19, 2020, 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 \$8,100 for the year ended March 31, 2020 and approximately \$8,250 for the year ended March 31, 2019.

The Association's U.S. Federal income tax returns prior to fiscal 2017 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, 2020 and 2019, 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, 2020

### 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, 2020 and 2019, 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>2020</u>	<u>2019</u>
Cash and cash equivalents – operating	\$ 356,018	\$ 244,882
Investments	2,612,149	3,658,833
Receivables	198,185	215,576
Total financial assets	<u>3,166,352</u>	<u>4,119,291</u>
Investments collateral related to line of credit	(745,000)	(210,000)
Cash reserved for 457(b) liability	(347,962)	-
Board-designated required reserve	<u>(2,079,597)</u>	<u>(2,057,400)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ (6,207)</u>	<u>\$ 1,851,891</u>

### 3. Investments

Investments were recorded at fair market value and totaled \$2,612,149 as of March 31, 2020 and \$3,658,833 as of March 31, 2019.

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 \$257,562 as of March 31, 2020 and \$262,402 as of March 31, 2019.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

### **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. The Association's Level 3 annuity investment's fair value is based upon the contract value reported by the insurance company, which approximates fair value.

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, 2020

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

Financial assets and liabilities carried at fair value as of March 31, 2020 and 2019 are classified in the following tables in one of the three categories described above.

<b>As of March 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash or Money Market (Morgan Stanley)	\$ 257,563	\$ -	\$ -	\$ 257,563
Traditional Equity	1,456,781	-	-	1,456,781
Fixed Income	555,535	-	-	555,535
Alternatives	342,270	-	-	342,270
<b>Total Portfolio Value</b>	<b>\$ 2,612,149</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,612,149</b>

<b>As of March 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash or Money Market (Morgan Stanley)	\$ 262,402	\$ -	\$ -	\$ 262,402
Traditional Equity	2,160,325	-	-	2,160,325
Fixed Income	421,652	-	-	421,652
Alternatives	497,644	-	-	497,644
Zurich Z54 Annuity	-	-	316,810	316,810
<b>Total Portfolio Value</b>	<b>\$ 3,342,023</b>	<b>\$ -</b>	<b>\$ 316,810</b>	<b>\$ 3,658,833</b>

The change in Level 3 investments is as follows for the years ended March 31:

	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 316,810	\$ 319,267
Realized/unrealized gain (loss)	31,152	(2,457)
Surrendered to ready for distribution	(347,962)	-
<b>Ending balance</b>	<b>\$ -</b>	<b>\$ 316,810</b>

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2020

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

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

	<u>2020</u>	<u>2019</u>
Furniture	\$ 409,918	\$ 356,827
Technology	588,242	973,219
Website/software development	2,322,027	1,729,014
Leasehold improvements	130,880	220,403
Copiers under capital lease	-	268,937
Finance lease right-of-use asset	268,937	-
Total	<u>3,720,004</u>	<u>3,548,400</u>
Less accumulated depreciation and amortization	<u>2,014,062</u>	<u>2,657,636</u>
Furniture, equipment, and leasehold improvements, net	<u>\$ 1,705,942</u>	<u>\$ 890,764</u>

Technology includes purchased computer equipment and software. Within this category are nondepreciable assets representing deposits for assets not yet placed in service totaling \$57,776 as of March 31, 2020 and \$52,747 as of March 31, 2019. Depreciation and amortization was \$533,046 for the year ended March 31, 2020 and \$457,084 for the year ended March 31, 2019.

**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 2.75% above LIBOR as of March 31, 2020 and \$600,000 with a variable interest rate per annum equal to 3.00% above LIBOR as of March 31, 2019. This line is a demand note that matures upon issuance. There was an outstanding balance of \$745,000 on March 31, 2020 and \$210,000 as of March 31, 2019. The line of credit is collateralized by all assets of the Association.

# The Michigan Association of Certified Public Accountants

## Notes to Financial Statements

March 31, 2020

### **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 \$111,000 for the year ended March 31, 2020 and approximately \$97,000 for the year ended March 31, 2019.

The Association has also made 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. The deferred amount due to an employee upon separation of employment was \$347,962 as of March 31, 2020 and \$316,810 as of March 31, 2019, which has been included in accrued other liabilities. The employee the 457(b) funds were due to retired March 31, 2020, and the funds were paid out to the employee April 1, 2020.

### **8. Lease Commitments**

#### *Facility Lease*

The Association was a party to a lease for facilities located in Troy, Michigan which was to end December 31, 2019. Both the Association and the landlord desired to shorten the lease by three months, making the expiration of the lease September 30, 2019, at which time the Association had no responsibility or obligation to pay any rent. The total amount of the base rent payments was charged to expense using the straight-line method over the lease terms. The accumulated result of using the straight-line method of expensing rent in excess of actual rental payments amounted to \$16,121 as of March 31, 2019, which was included in other accrued liabilities in the accompanying statements of financial position. Total lease expense related to this lease was \$132,413 for the year ended March 31, 2020 and \$264,800 for the year ended March 31, 2019.

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 \$3,351,323, 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.

The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2020

**8. Lease Commitments (continued)**

*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, 2020 included \$147,915 related to these leased assets (\$94,128 as of March 31, 2019). Depreciation and amortization expense for the year ended March 31, 2019 included \$53,763 relating to these copiers. 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 as of and for the year ended March 31, 2020.

Amounts recognized in the financial statements for operating and finance leases are as follows for the year ended March 31, 2020:

**Lease cost**

Finance lease cost:

Amortization of right-of-use assets	\$ 53,787
Interest on lease liabilities	<u>2,862</u>
Total finance lease cost	<u>\$ 56,649</u>

Operating lease cost	<u>\$ 178,738</u>
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**Cash and noncash activities**

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

Operating cash flows from operating leases	\$ 71,283
Operating cash flows from finance leases	\$ 2,862
Financing cash flows from finance leases	\$ 48,993

Noncash investing and financing activities:

Additions to right-of-use assets obtained from new operating lease liabilities	<u>\$ 2,444,373</u>
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The Michigan Association of Certified Public Accountants

Notes to Financial Statements

March 31, 2020

**8. Lease Commitments (continued)**

Future payments due under operating and finance leases as of March 31, 2020 are as follows for each fiscal year:

	<u>Operating</u>	<u>Finance</u>
2021	\$ 244,897	\$ 56,545
2022	250,859	56,545
2023	256,820	20,583
2024	262,781	-
2025 and thereafter	<u>2,264,683</u>	<u>-</u>
Total	3,280,040	133,673
Effects of discounting	<u>(869,853)</u>	<u>(3,216)</u>
Lease liabilities recognized	<u>\$ 2,410,187</u>	<u>\$ 130,457</u>

As of March 31, 2020, the weighted-average remaining lease term for the operating lease is 11.8 years, while the weighted-average remaining lease term for the finance lease is 2.3 years.

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 5.23%, which is the Association's incremental borrowing rate.

**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 general and administrative services to the Foundation. Amounts billed to the Foundation for general and administrative expense services were \$66,851 for the year ended March 31, 2020 and \$57,143 for the year ended March 31, 2019. In addition, the Association made unrestricted contributions to the Foundation of \$51,655 for the year ended March 31, 2020 and \$51,335 for the year ended March 31, 2019. 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.