

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019



HERTZBACH
certified public accountants · consultants

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

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For the Years Ended June 30, 2020 and 2019

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Independent Auditor's Report

To the Board of Directors and Members
Maryland Association of Certified Public Accountants, Inc.
and Related Organizations
Dulaney Center II
901 Dulaney Valley Road, Suite 800
Towson, Maryland 21204

We have audited the accompanying consolidated financial statements of the Maryland Association of Certified Public Accountants, Inc. and Related Organizations (the Association), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Maryland Association of Certified Public Accountants, Inc. and Related Organizations as of June 30, 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 of the consolidated financial statements, during the year ended June 30, 2020, the Association adopted Financial Accounting Standards Board Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

As discussed in Note 1 of the consolidated financial statements, during the year ended June 30, 2020, the Association adopted Financial Accounting Standards Board Update (ASU) No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Hertzbach & Company, P.A.

Owings Mills, Maryland
September 21, 2020

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Statements of Financial Position
As of June 30, 2020 and 2019

Assets	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 701,795	\$ 418,511
Investments	1,519,202	1,910,033
Accounts receivable, net	411,314	633,394
Contract assets	147,000	-
Prepaid expenses	67,568	91,413
Total current assets	<u>2,846,879</u>	<u>3,053,351</u>
Property, equipment, and software		
Office furniture and equipment	335,330	390,685
Leasehold improvements	63,407	63,407
Software and website development	186,209	212,691
	584,946	666,783
Less: accumulated depreciation	<u>525,359</u>	<u>569,351</u>
Total property, equipment, and software, net	<u>59,587</u>	<u>97,432</u>
Other assets		
Deposits	3,507	1,028
Deferred tax asset, net	238,310	238,310
Restricted investments	35,000	35,000
Total other assets	<u>276,817</u>	<u>274,338</u>
Total assets	<u><u>\$ 3,183,283</u></u>	<u><u>\$ 3,425,121</u></u>

See independent auditor's report and notes to consolidated financial statements.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Statements of Financial Position (Continued)
As of June 30, 2020 and 2019

	2020	2019
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 886,837	\$ 1,092,863
Note payable	-	5,928
Deferred revenue:		
Dues	206,843	107,790
Other	319,168	182,534
Total current liabilities	<u>1,412,848</u>	<u>1,389,115</u>
Noncurrent liabilities		
Deferred rent	<u>109,185</u>	<u>118,683</u>
Total liabilities	<u>1,522,033</u>	<u>1,507,798</u>
Net assets		
Without donor restrictions	1,622,708	1,877,020
With donor restrictions (see Note 7)	<u>38,542</u>	<u>40,303</u>
Total net assets	<u>1,661,250</u>	<u>1,917,323</u>
Total liabilities and net assets	<u>\$ 3,183,283</u>	<u>\$ 3,425,121</u>

See independent auditor's report and notes to consolidated financial statements.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Statements of Activities
For the Years Ended June 30, 2020 and 2019

	2020	2019
Net assets without donor restriction		
Revenue, gains, and support		
Membership dues	\$ 2,045,473	\$ 1,955,477
Professional development program fees	3,018,706	3,876,629
Self-regulation fees	154,267	182,510
Net investment income	90,173	113,361
Advertising and sponsorships	476,391	515,737
Donations	18,236	73,671
Other	86,111	71,382
Net assets released from restriction, satisfactions of program restrictions	1,000	1,000
Total revenue, gains, and support	<u>5,890,357</u>	<u>6,789,767</u>
Expenses		
Program services:		
Membership and advocacy	1,245,461	998,082
Professional development	3,563,024	4,286,664
Self regulation	153,802	152,308
Total program expenses	4,962,287	5,437,054
Supporting services		
Management and general	1,182,382	1,413,961
Total expenses	<u>6,144,669</u>	<u>6,851,015</u>
Change in operating activities	<u>(254,312)</u>	<u>(61,248)</u>
Other changes in net assets		
Provision for income tax benefit	-	94,603
Change in net assets without donor restrictions	(254,312)	33,355
Net assets without donor restrictions at beginning of year	<u>1,877,020</u>	<u>1,843,665</u>
Net assets without donor restrictions at end of year	<u>\$ 1,622,708</u>	<u>\$ 1,877,020</u>

See independent auditor's report and notes to consolidated financial statements.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Statements of Activities (Continued)
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions		
Revenue, gains, and support		
Net investment (loss) income	\$ (761)	\$ 2,391
Net assets released from restrictions, satisfaction of program restrictions	<u>(1,000)</u>	<u>(1,000)</u>
Change in net assets with donor restrictions	(1,761)	1,391
Net assets with donor restrictions at beginning of year	<u>40,303</u>	<u>38,912</u>
Net assets with donor restrictions at end of year	<u><u>\$ 38,542</u></u>	<u><u>\$ 40,303</u></u>
 Total net assets at beginning of year	 \$ 1,917,323	 \$ 1,882,577
Total change in net assets	<u>(256,073)</u>	<u>34,746</u>
Total net assets at end of year	<u><u>\$ 1,661,250</u></u>	<u><u>\$ 1,917,323</u></u>

See independent auditor's report and notes to consolidated financial statements.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program services			Total Program Expenses	Supporting services	Total
	Membership and Advocacy	Professional Development	Self Regulation		Management and General	
Advertising and sponsorship	\$ -	\$ -	\$ -	\$ -	\$ 355,598	\$ 355,598
Bank fees	35,521	52,421	2,670	90,612	24,290	114,902
Bad debt	-	-	-	-	(6,884)	(6,884)
Depreciation	-	-	-	-	47,911	47,911
Marketing	123,164	181,764	9,258	314,186	-	314,186
Miscellaneous	8,541	12,604	642	21,787	8,283	30,070
Occupancy	92,387	136,343	6,944	235,674	63,179	298,853
Other employee benefits	57,718	85,179	4,339	147,236	39,471	186,707
Payroll taxes	43,972	64,893	3,305	112,170	30,072	142,242
Printing and publications	-	-	-	-	40,214	40,214
Professional development program expense	-	1,635,162	2,685	1,637,847	-	1,637,847
Professional fees	67,993	249,667	65,640	383,300	49,599	432,899
Recruitment and retention	23,809	-	-	23,809	-	23,809
Retirement contribution	22,079	32,584	1,660	56,323	15,098	71,421
Salary	636,742	939,691	47,862	1,624,295	435,438	2,059,733
Scholarships	16,500	-	-	16,500	-	16,500
Supplies and postage	4,778	7,051	359	12,188	3,348	15,536
Technology	83,683	123,497	6,290	213,470	57,226	270,696
Travel	28,574	42,168	2,148	72,890	19,539	92,429
Total expenses	\$ 1,245,461	\$ 3,563,024	\$ 153,802	\$ 4,962,287	\$ 1,182,382	\$ 6,144,669

See independent auditor's report and notes to consolidated financial statements.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program services				Supporting services	Total
	Membership and Advocacy	Professional Development	Self Regulation	Total Program Expenses	Management and General	
Advertising and sponsorship	\$ -	\$ -	\$ -	\$ -	\$ 288,572	\$ 288,572
Bank fees	24,571	48,716	2,298	75,585	28,775	104,360
Bad debt	-	-	-	-	5,750	5,750
Depreciation	-	-	-	-	83,197	83,197
Marketing	103,611	205,423	9,690	318,724	-	318,724
Miscellaneous	4,361	8,646	408	13,415	5,108	18,523
Occupancy	69,074	136,949	6,460	212,483	80,890	293,373
Other employee benefits	56,613	112,242	5,294	174,149	66,298	240,447
Payroll taxes	33,528	66,471	3,135	103,134	39,264	142,398
Printing and publications	-	-	-	-	44,917	44,917
Professional development program expense	-	2,221,759	2,467	2,224,226	-	2,224,226
Professional fees	45,816	272,301	65,285	383,402	54,023	437,425
Recruitment and retention	39,611	-	-	39,611	-	39,611
Retirement contribution	30,481	60,433	2,850	93,764	35,696	129,460
Salary	485,651	962,866	45,418	1,493,935	568,736	2,062,671
Scholarships	8,500	-	-	8,500	-	8,500
Supplies and postage	2,389	4,737	224	7,350	2,798	10,148
Technology	61,611	122,152	5,762	189,525	72,152	261,677
Travel	32,265	63,969	3,017	99,251	37,785	137,036
Total expenses	\$ 998,082	\$ 4,286,664	\$ 152,308	\$ 5,437,054	\$ 1,413,961	\$ 6,851,015

See independent auditor's report and notes to consolidated financial statements.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Membership dues received	\$ 2,129,113	\$ 1,338,467
Professional development program fees received	2,989,325	3,992,907
Other receipts	1,016,346	721,181
Interest and dividends received	114,716	77,012
Salaries and benefits paid to employees	(2,641,737)	(2,638,905)
Cash paid to suppliers	(3,776,138)	(4,127,048)
Interest paid on bank loan	(52)	(1,444)
Net cash and cash equivalents used in operating activities	<u>(168,427)</u>	<u>(637,830)</u>
Cash flows from investing activities		
Proceeds from sale of investments in marketable securities	1,288,619	1,577,836
Purchases of investments in marketable securities	(819,564)	(1,251,958)
Purchases of property, equipment, and software	(11,416)	(10,177)
Net cash and cash equivalents provided by investing activities	<u>457,639</u>	<u>315,701</u>
Cash flows from financing activities		
Principal payments on note payable	(5,928)	(45,011)
Net cash and cash equivalents used in financing activities	<u>(5,928)</u>	<u>(45,011)</u>
Net increase (decrease) in cash and cash equivalents	283,284	(367,140)
Cash and cash equivalents, beginning of year	<u>418,511</u>	<u>785,651</u>
Cash and cash equivalents, end of year	<u><u>\$ 701,795</u></u>	<u><u>\$ 418,511</u></u>

See independent auditor's report and notes to consolidated financial statements.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies

Organization

The Maryland Association of Certified Public Accountants, Inc. (MACPA) and its related organizations provide professional development, regulatory, promotional and advocacy services to its members, supporting their efforts to conform to the highest standards of professional service and conduct. Most of the members are Certified Public Accountants practicing in firms or employed by companies, non-profit organizations, schools, or government agencies located in Maryland. MACPA and its related organizations' revenues will be influenced by changes in the profession and the regional economy.

Principles of Consolidation

These consolidated financial statements include the resources and activities of the MACPA (a nonprofit organization) and its chapters, its wholly-owned for-profit subsidiary, Business Learning Institute, Inc. (BLI, Inc.), and the related nonprofit organization of the Maryland Association of Certified Public Accountants Educational Foundation, Inc. (the Foundation) (see Note 6), which have been consolidated in accordance with accounting principles generally accepted in the United States of America. As used herein, the "Association" includes the MACPA, BLI, Inc., and the Foundation.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Method of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association are classified in the following two classes:

Net assets with donor restrictions consist of contributions that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate the resources maintained in perpetuity, but permit the Association to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Net assets without donor restrictions represents funds that are available for support of the operations of the Association, and that are not subject to donor stipulation.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Board-designated net assets are net assets without donor restrictions that are used only the specific purpose by Board resolution. No portion of the Association's net assets were subject to Board-designation as of June 30, 2020 and 2019.

See independent auditor's report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU 2014-09 affects an entity that either enters into contracts with customer to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The five step model defined by ASU 2014-09 requires the Association to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods and services. Additionally, ASU 2014-09 requires enhanced disclosure of revenue arrangements. ASU 2014-09 may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective for the Association’s fiscal year beginning July 1, 2019, and the Association adopted the new standard under the modified retrospective approach. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning retained earnings. The Association has determined that the adoption of ASU 2014-09 did not result in an adjustment to net assets as of July 1, 2019.

In 2020, the Association adopted ASU No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”). ASU 2018-08 provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The Association has determined that the adoption of ASU 2018-08 did not result in a change in revenue from contributions received and expenses for contributions made as reported for the year ended June 30, 2019.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Association considers all investment instruments purchased with an original maturity of three months or less and money market accounts to be cash equivalents.

The Association maintains cash balances at a financial institution located in the Baltimore metropolitan area. These balances are secured by the Federal Deposit Insurance Corporation. At June 30, 2020, cash balances did not exceed federally insured limits.

See independent auditor’s report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Investments in Marketable Securities

The Association records investments in marketable securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for discussion of fair value measurement. Realized and unrealized gains and losses are recorded in the consolidated statement of activities as components of net investment income.

Property, Equipment, and Software

Property, equipment, and software, including website development costs in excess of \$500 are capitalized and carried at cost. Depreciation and amortization are computed over the estimated useful lives using the straight-line method. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$47,911 and \$83,197, respectively.

Accounts Receivable

Management estimates the net realizable value of accounts receivable by reviewing the Association's detailed accounts receivable, current and past-due. Based upon this review, management estimates the amount that may not be collectible. This estimate is the basis for the allowance for doubtful accounts. As of June 30, 2020 and 2019, the Association established an allowance for doubtful accounts in the amount of \$12,725 and \$19,609, respectively.

The MACPA utilizes a hybrid subscription membership dues policy. Members at the time of adoption had the choice of continuing to receive paper dues invoices and pay by check, or, pay by credit card on a monthly or annual basis and have their credit card charged automatically in future months or years. New members must pay by credit card on a monthly or annual basis under the new membership subscription policy. Members whose credit cards fail when an automatic charge is attempted have 30 days to remedy the failed card before the suspension of benefits. Additionally, members who don't resolve failed credit card charges within 30 days will have a break in membership and be placed on a new membership renewal/recognition cycle once the charge is successful.

Revenue Recognition

Donations

Donations are recognized as revenues in the period received or a promise to give is made. Unconditional promises to give are recognized as revenue in the year made, not in the year in which the cash is received. Promises to give that are scheduled to be received after the consolidated statement of financial position date are reported at fair value as increases in net assets with donor restrictions and reclassified to net assets without donor restrictions when the purpose and time restrictions are met, except for promises to give subject to donor-imposed stipulations that the principal be maintained in perpetuity, which are recognized as increases in, and will remain as, net assets with donor restrictions. Conditional promises to give are not recognized until they become unconditional, which is when the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

See independent auditor's report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Donations(Continued)

The Association reports gifts of land, buildings, and equipment as without donor restriction support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restriction support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Membership Dues

Membership dues include access to a multitude of benefits. Access to these benefits is voluntary and can occur during the membership period and are treated as part of the membership itself, rather than multiple performance obligations. The Association recognizes revenue over the membership period, which coincides with the Association's fiscal year for approximately 83% of members. Newer members may start their membership dues at various times during the year. Dues received in advance are deferred until earned.

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 customer 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 customer on a constant basis over the contract period.

For those members whose ages are known, approximately 70% of the Association's membership dues were received from members age 50 and older for the years ended June 30, 2020 and 2019. Future membership dues revenue could be impacted if the Association is unable to replenish the membership with younger members.

Professional Development Program Fees

Revenue is derived from the Association delivering thought leadership, learning products and services such as in-person events, online learning events and competency-enhancing resources on the online store. Revenue generated from sales of physical products and e-books is recognized when the goods are shipped, or access is granted. Online self-study products provide access over a specified period of time. Revenue is recognized over the access period, which is predominately a one-year period. In-person events such as conferences, group study and member service events are recognized when the event occurs. Registration fees received prior to the presentation are deferred until earned.

For subscription-based product 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 customer 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 customer on a constant basis over the contract period.

See independent auditor's report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

1) Nature of Organization 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. The Association's 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 and are presented separately in the combined statements of financial position. Contract liabilities include advanced dues and unearned revenue when the Association receives payment from customers before revenue is recognized and are presented separately in the combined statements of financial position.

Self-Regulation Fees

Accounting firms enrolled in the peer review program are assessed annual dues (self-regulating fees) for ongoing administrative costs. Revenue is recognized evenly over the membership period. Fees associated with triennial peer review examinations are recognized when the final report is accepted.

Advertising and Sponsorships

The Association has contracts with various vendors to provide advertising and promotional services, which may have multiple performance obligations. The Association allocates the transaction price of these contracts based on the fair market value of the individual performance obligations. Revenue is recognized over time or at a point in time depending on the nature of the performance obligations of each specific contract. For all contracts where revenue is recognized over time, management has estimated that services are provided evenly throughout the contract period and are recognized on a straight-line basis over the life of the contract.

Disaggregation of Revenue

The Association's membership dues, self-regulation fees, professional development programs and advertising and sponsorships revenue are recognized over time or at a point in time based on the performance obligations of each contract. Various economic factors affect revenues and cash flows. Substantially all customers are in the United States. Revenue from each source is generally collected within ninety days.

See independent auditor's report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Disaggregation of Revenue (Continued)

The following table disaggregates the Association's revenue based on the timing of satisfaction of performance obligations for the period ending June 30, 2020.

	Services transferred over time	Services transferred at a point in time	Total
Membership dues	\$ 2,045,473	\$ -	\$ 2,045,473
Self-regulation fees	68,207	86,060	154,267
Professional development programs	-	3,018,706	3,018,706
Advertising and sponsorships	476,391	-	476,391
Total	<u>\$ 2,590,071</u>	<u>\$ 3,104,766</u>	<u>\$ 5,694,837</u>

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills that would otherwise be purchased by the Association. Volunteers do periodically contribute their time and services to the activities of the Association. However, the value of these donated services are not reflected in these consolidated financial statements as the recognition criteria was not met.

Advertising and Website Costs

Costs incurred in the planning stage of developing a website and costs incurred for website maintenance are expensed as incurred. Costs incurred for website enhancement are generally capitalized and depreciated over the estimated useful life. Costs of advertising and promotional campaigns are expensed as incurred. Advertising costs amounted to \$77,897 and \$135,358 for the years ended June 30, 2020 and 2019, respectively.

Functional Expense Allocation

Directly identifiable expenses are charged to those service programs. Expenses related to more than one function are charged to service programs on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any specific program function but provide overall support and direction to the Association.

Income Taxes

A provision for income taxes is provided for the tax effects of transactions reported in the financial statements of BLI, Inc. (a for profit entity) and consist of taxes currently due plus deferred taxes related to operating losses that are available to offset future federal and state income taxes. There were no taxes due for either of the years ended June 30, 2020 and 2019.

See independent auditor's report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Compensated Absences

Employees of the Association are entitled to paid days off depending on job classification, length of service, and other factors. The Association accrued \$131,598 and \$136,960 for paid days off as of June 30, 2020 and 2019, respectively, and are included in accounts payable and accrued expenses on the consolidated statements of financial position.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

2) Investments

The MACPA and the Foundation maintain reserve funds invested in marketable securities with the goals of preservation of capital and purchasing power. The targeted asset allocation prescribed in the Investment Policy is 65% equities and 35% fixed income securities. The MACPA held investment assets of \$1,083,407 and \$1,532,237 at June 30, 2020 and 2019, respectively. The Foundation held investment assets of \$470,795 and \$412,796 at June 30, 2020 and 2019, respectively. Of the Foundation's held investments, \$35,000 is classified as net assets with donor restriction as of June 30, 2020 and 2019 (see Note 7).

FASB, Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a 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 under ASC 820 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 Association has the ability to access.

Level 2

Inputs to the valuation methodology include:

- 1) quoted prices for similar assets or liabilities in active markets;
- 2) quoted prices for identical or similar assets or liabilities in inactive markets;
- 3) inputs other than quoted prices that are observable for the asset or liability;
- 4) 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.

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Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

2) Investments (Continued)

Level 3

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no change in methodologies used at June 30, 2020 and 2019.

Equity and Fixed Income Securities

Valued at the quoted prices in active markets for identical assets.

Mutual Funds

Mutual funds are valued at quoted market prices in an exchange and active market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Association's investment assets at fair value as of June 30, 2020 and 2019. Classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Assets at Fair Value as of June 30, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income securities	\$ 364,926	\$ -	\$ -	\$ 364,926
Equity securities	727,570	-	-	727,570
Mutual funds	<u>461,706</u>	<u>-</u>	<u>-</u>	<u>461,706</u>
Total assets at fair value	<u>\$ 1,554,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,554,202</u>

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Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

2) Investments (Continued)

Assets at Fair Value as of June 30, 2019

	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 529,728	\$ -	\$ -	\$ 529,728
Equity securities	1,002,509	-	-	1,002,509
Mutual funds	412,796	-	-	412,796
Total assets at fair value	<u>\$ 1,945,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,945,033</u>

Fixed income securities mature as follows:

	2020	2019
Within three years	\$ 145,517	\$ 226,808
Three to ten years	219,409	302,920
	<u>\$ 364,926</u>	<u>\$ 529,728</u>

Net investment income consisted of:

	2020	2019
Interest and dividends	\$ 35,105	\$ 75,725
Net realized and unrealized gains	78,112	67,942
Investment management fees	(23,805)	(27,915)
	<u>\$ 89,412</u>	<u>\$ 115,752</u>

Fixed income securities and a money market account with a total value of \$893,488 and \$536,593 at June 30, 2020 and 2019, respectively, are pledged to secure the bank line of credit described in Note 8.

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Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

3) Income Taxes

The Internal Revenue Service has determined that the MACPA is exempt from federal income tax under Section 501(c)(6) and that the Foundation is exempt from federal income taxes under Section 501(c)(3). The income of BLI, Inc. is subject to federal and state income taxes. The provisions for income taxes consists of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Deferred benefit		
Federal	\$ 179,392	\$ 102,658
State	54,293	84,799
	<u>233,685</u>	<u>187,457</u>
Provision for deferred tax allowance	<u>(233,685)</u>	<u>(92,854)</u>
Deferred benefit, net	<u>\$ -</u>	<u>\$ 94,603</u>

The Association's total deferred tax assets as of June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax asset		
Federal	\$ 425,757	\$ 246,365
State	139,092	84,799
	<u>564,849</u>	<u>331,164</u>
Less: valuation allowance	<u>326,539</u>	<u>92,854</u>
Deferred tax asset, net	<u>\$ 238,310</u>	<u>\$ 238,310</u>

As of June 30, 2020, BLI, Inc. had net operating loss carryforwards in the amount of \$2,166,143. If not used, \$684,321 of the carryforwards will expire in years 2027 through 2038, the remaining \$1,481,822 of carryforwards do not expire.

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Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

4) Lease Commitments

During 2014, the Association amended their lease agreement for office space in Dulaney Center in Towson, Maryland. The lease is payable in monthly installments of \$14,693 with a 2.75% annual increase through December 2024. As a result of the amendment, the Association was provided rent abatement for the first six months of the lease.

Future minimum lease payments under the terms of the lease are as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2021	\$ 206,099
2022	211,767
2023	217,591
2024	223,575
2025	114,088
Total future minimum lease payments	<u><u>\$ 973,120</u></u>

The lease agreement also requires payments based upon the landlords' costs of insurance, real estate taxes, and operating expenses. Rent expenses, including executory costs, totaled \$207,809 and \$207,973 for the years ended June 30, 2020 and 2019, respectively.

Due to annual escalation clauses and rent abatement, rent expense is calculated under the straight-line method in accordance with generally accepted accounting principles. Deferred rent in the amount of \$109,185 and \$118,683 has been recorded to reflect the difference between rent calculated under the straight-line method and the amount of rent actually due for the years ended June 30, 2020 and 2019, respectively.

5) Retirement Plan

The Association has a retirement plan that qualifies under section 401(k) of the Internal Revenue Code. The plan covers employees who have attained the age of 21 and have completed one year of service. The Plan is a safe harbor plan that includes a safe harbor contribution and a profit sharing contribution that is vested over six years.

The plan is funded in the following ways:

- Safe-harbor non-elective contributions made by the Association equal to 3% of participant's compensation.
- Profit sharing contributions made by the Association to all eligible participants at a rate determined by the Board of Directors. Profit sharing contribution rates for the years ended June 30, 2020 and 2019 were 0% and 3% of annual compensation, respectively.

See independent auditor's report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

5) Retirement Plan (Continued)

- Discretionary participant contributions made by individual employees.
- The Association pays a match of 25 cents on every dollar of employee contributions. Employee contributions of up to 4% of annual compensation are eligible for a match for a maximum Association payment of 1% of an employee's annual compensation.

Retirement plan expenses totaled \$76,566 and \$137,503 for the years ended June 30, 2020 and 2019, respectively. These amounts were accrued and are included in accounts payable and accrued expenses on the consolidated statements of financial position as of June 30, 2020 and 2019, respectively.

6) Educational Foundation

The Foundation is a public charitable and educational organization as described under Section 501(c)(3) of the Internal Revenue Code. The Foundation's assets are to be expended for its exempt charitable and educational purposes which include providing scholarships to accounting students based on need, merit and the desire to pursue a career as a Certified Public Accountant as well as various pipeline, diversity, and inclusion initiatives. The MACPA made no contributions to the Foundation for the years ended June 30, 2020 and 2019. The Foundation received restricted donations during the year ended June 30, 2020 and 2019 in the amount of \$0 and \$5,000, respectively.

The Foundation's financial statements are consolidated with the Association's and include:

	2020	2019
Cash and investments	\$ 487,776	\$ 509,393
Contributions receivable	14,398	5,183
Total assets	<u>\$ 502,174</u>	<u>\$ 514,576</u>
Accounts Payable	<u>\$ 3,348</u>	<u>\$ -</u>
Net assets without donor restrictions	\$ 460,284	\$ 474,273
Net assets with donor restrictions	<u>38,542</u>	<u>40,303</u>
Total liabilities and net assets	<u>\$ 502,174</u>	<u>\$ 514,576</u>
Total revenue and gains	\$ 76,234	\$ 102,427
Total expenses and losses	<u>91,984</u>	<u>8,551</u>
(Decrease) increase in net assets without donor restrictions	(13,989)	92,485
(Decrease) increase in net assets with donor restrictions	<u>(1,761)</u>	<u>1,391</u>
Total (decrease) increase in net assets	<u>\$ (15,750)</u>	<u>\$ 93,876</u>

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Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

7) Endowment Fund

The Foundation's endowment consists of one named scholarship fund to provide scholarships for minority and/or women students. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's endowment is donor-restricted and is to be held in perpetuity to generate returns to fund the annual scholarship.

Interpretation of Relevant Law

The Foundation has established policies regarding the preservation and investment of net assets with donor restrictions consistent with generally accepted accounting principles. The Foundation believes that net assets with donor restricted funds require the preservation of the fair value of the gift, and the earnings on those funds should be classified in accordance with the donor's stipulations, in this instance as net assets with donor restrictions until disbursed.

Return Objectives and Risk Parameters

The Foundation has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets consist of donor-restricted funds that the Foundation must hold in perpetuity. The assets are invested with the expectation to provide an average annual rate of return of approximately 4 percent over time. Actual returns in any given year may vary from this amount.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of maintaining a full historical value of the principal of the endowment fund. Income earned on the principal is to be spent in its entirety for scholarships. The endowment funds are currently invested in mutual funds with a target asset allocation, plus or minus 5 percent, of 65 percent equities and 35 percent fixed income securities.

Net assets with donor restrictions is composed solely from the endowment assets. The changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	Purpose restricted	Endowment fund	Total
Endowment net assets, June 30, 2018	\$ 3,912	\$ 35,000	\$ 38,912
Investment income	2,391	-	2,391
Expenditures	(1,000)	-	(1,000)
Endowment net assets, June 30, 2019	5,303	35,000	40,303
Investment loss	(761)	-	(761)
Expenditures	(1,000)	-	(1,000)
Endowment net assets, June 30, 2020	\$ 3,542	\$ 35,000	\$ 38,542

See independent auditor's report.

Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

8) Line of Credit

The Association may borrow up to \$200,000 under terms of a revolving line of credit with BB&T Bank. The line bears interest at the bank's prime rate, and is secured by an investment account described in Note 2. There was no outstanding balance on the line of credit as of June 30, 2020 and 2019.

9) Note Payable

The Association has a note payable in the amount of \$200,000 that was used to finance equipment purchases for office renovations. The note is payable in 57 monthly payments of \$3,795 beginning in December 2014. The note shall bear interest at prime for the first three months and then convert to a fixed rate of 3.93%. The Association repaid the note payable in full during the year ended June 30, 2020.

10) Business Risk

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred domestically in the United States and globally, including mandates from federal, state and local governments, leading to an overall decline in global economic activity. The ultimate impact of COVID-19 on the financial performance of the Association's investments cannot be reasonably estimated at this time, but Association's management continues to monitor current market conditions. Further, the Association is assessing the impact COVID-19 will have on its various revenue streams. While it is difficult to estimate the length or severity of this outbreak and the related financial impact to the Association, management is continuously developing appropriate strategies to respond to this uncertainty.

11) Liquidity Analysis

Financial assets at year end:	Amount
Cash and cash equivalents	\$ 701,795
Accounts receivable, net	411,314
Contract assets	147,000
Investments	1,554,202
Total financial assets	2,814,311
Less: contractual or donor imposed restrictions	
Purpose restricted	3,542
Endowment fund	35,000
Financial assets not available to be used within one year	38,542
Financial assets available to meet general expenditures within one year	\$ 2,775,769

The Association has donor-restricted assets limited to use which are available for expenditure within one year in the normal course of operations but must satisfy the purpose restriction.

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Maryland Association of Certified Public Accountants, Inc. and Related Organizations

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

11) Liquidity Analysis (Continued)

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Association invests cash in excess of daily requirements in fixed income and equity securities which amounted to \$1,519,202 as of June 30, 2020. Additionally, the Association has a \$200,000 line of credit, as discussed in more detail in Note 8. As of June 30, 2020, \$200,000 remained available on the Association's line of credit.

12) Subsequent Events

Management has evaluated events and transactions subsequent to the consolidated statement of financial position date for potential recognition or disclosure through September 21, 2020, the date the consolidated financial statements were available to be issued. There were no events that required recognition or disclosure in the consolidated financial statements.

See independent auditor's report.