

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

Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018



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, 2019 and 2018

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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, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 audit 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, 2019 and 2018, 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, 2019, the Association adopted Financial Accounting Standards Board Update (ASU) No. 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Hertzbach & Company, P.A.

Owings Mills, Maryland
September 24, 2019

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

Consolidated Statements of Financial Position
As of June 30, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 418,511	\$ 785,651
Investments	1,910,033	2,173,234
Accounts receivable, net	633,394	849,811
Prepaid expenses	91,413	124,609
Total current assets	<u>3,053,351</u>	<u>3,933,305</u>
Property, equipment, and software		
Office furniture and equipment	390,685	380,508
Leasehold improvements	63,407	63,407
Software and website development	212,691	212,691
	666,783	656,606
Less: accumulated depreciation	<u>569,351</u>	<u>486,154</u>
Total property, equipment, and software, net	<u>97,432</u>	<u>170,452</u>
Other assets		
Deposits	1,028	1,028
Deferred tax asset, net	238,310	143,707
Restricted investments	35,000	35,000
Total other assets	<u>274,338</u>	<u>179,735</u>
Total assets	<u>\$ 3,425,121</u>	<u>\$ 4,283,492</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, 2019 and 2018

	2019	2018
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,092,863	\$ 1,076,239
Current portion of note payable	5,928	45,010
Deferred revenue:		
Dues	107,790	989,915
Other	182,534	162,809
Total current liabilities	<u>1,389,115</u>	<u>2,273,973</u>
Noncurrent liabilities		
Deferred rent	118,683	121,013
Note payable, net of current portion	-	5,929
Total noncurrent liabilities	<u>118,683</u>	<u>126,942</u>
Total liabilities	<u>1,507,798</u>	<u>2,400,915</u>
Net assets		
Without donor restrictions	1,877,020	1,843,665
With donor restrictions (see Note 7)	40,303	38,912
Total net assets	<u>1,917,323</u>	<u>1,882,577</u>
Total liabilities and net assets	<u>\$ 3,425,121</u>	<u>\$ 4,283,492</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, 2019 and 2018

	2019	2018
Net assets without donor restriction		
Revenue, gains, and support		
Membership dues	\$ 1,955,477	\$ 2,045,890
Professional development program fees	3,876,629	3,794,045
Self-regulation fees	182,510	166,310
Net investment income	113,361	138,774
Advertising and sponsorships	515,737	447,965
Donations	73,671	18,118
Other	71,382	155,724
Net assets released from restriction, satisfactions of program restrictions	1,000	500
Total revenue, gains, and support	<u>6,789,767</u>	<u>6,767,326</u>
Expenses		
Program services:		
Membership and advocacy	998,082	1,045,433
Professional development	4,286,664	4,227,457
Self regulation	152,308	89,949
Advertising and sponsorships	333,489	290,417
Total program expenses	<u>5,770,543</u>	<u>5,653,256</u>
Supporting services		
Management and general	1,080,472	1,024,007
Total expenses	<u>6,851,015</u>	<u>6,677,263</u>
Change in operating activities	<u>(61,248)</u>	<u>90,063</u>
Other changes in net assets		
Provision for income tax benefit (expense), net	94,603	(17,923)
Change in net assets without donor restrictions	33,355	72,140
Net assets without donor restrictions at beginning of year	<u>1,843,665</u>	<u>1,771,525</u>
Net assets without donor restrictions at end of year	<u>\$ 1,877,020</u>	<u>\$ 1,843,665</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions		
Revenue, gains, and support		
Net investment income	\$ 2,391	\$ 3,404
Donations	-	5,000
Net assets released from restrictions, satisfaction of program restrictions	<u>(1,000)</u>	<u>(500)</u>
Change in net assets with donor restrictions	1,391	7,904
Net assets with donor restrictions at beginning of year	<u>38,912</u>	<u>31,008</u>
Net assets with donor restrictions at end of year	<u>\$ 40,303</u>	<u>\$ 38,912</u>
Total net assets at beginning of year	\$ 1,882,577	\$ 1,802,533
Total change in net assets	<u>34,746</u>	<u>80,044</u>
Total net assets at end of year	<u>\$ 1,917,323</u>	<u>\$ 1,882,577</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, 2019

	Program services				Total Program Expenses	Supporting activities	Total
	Membership and Advocacy	Professional Development	Self Regulation	Advertising and Sponsorship		Management and General	
Bank fees	\$ 24,571	\$ 48,716	\$ 2,298	\$ 6,483	\$ 82,068	\$ 28,775	\$ 110,843
Bad debt	-	-	-	-	-	5,750	5,750
Depreciation	-	-	-	-	-	83,197	83,197
Marketing	103,611	205,423	9,690	27,339	346,063	-	346,063
Miscellaneous	4,361	8,646	408	1,151	14,566	5,108	19,674
Occupancy	69,074	136,949	6,460	18,226	230,709	80,890	311,599
Other employee benefits	56,613	112,242	5,294	14,938	189,087	66,298	255,385
Payroll taxes	33,528	66,471	3,135	8,848	111,982	39,264	151,246
Printing and publications	-	-	-	44,917	44,917	-	44,917
Professional development program expense	-	2,221,759	2,467	37,909	2,262,135	-	2,262,135
Professional fees	45,816	272,301	65,285	12,089	395,491	54,023	449,514
Recruitment and retention	39,611	-	-	-	39,611	-	39,611
Retirement contribution	30,481	60,433	2,850	8,043	101,807	35,696	137,503
Salary	485,651	962,866	45,418	128,144	1,622,079	568,736	2,190,815
Scholarships	8,500	-	-	-	8,500	-	8,500
Supplies and postage	2,389	4,737	224	631	7,981	2,798	10,779
Technology	61,611	122,152	5,762	16,257	205,782	72,152	277,934
Travel	32,265	63,969	3,017	8,514	107,765	37,785	145,550
Total expenses	\$ 998,082	\$ 4,286,664	\$ 152,308	\$ 333,489	\$ 5,770,543	\$ 1,080,472	\$ 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 Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program services				Total Program Expenses	Supporting activities	Total
	Membership and Advocacy	Professional Development	Self Regulation	Advertising and Sponsorship		Management and General	
Bank fees	\$ 29,451	\$ 54,233	\$ 2,398	\$ 6,459	\$ 92,541	\$ 32,516	\$ 125,057
Bad debt	-	-	-	-	-	3,466	3,466
Depreciation	-	-	-	-	-	82,440	82,440
Marketing	106,471	197,487	8,668	23,350	335,976	-	335,976
Miscellaneous	4,268	11,044	347	935	16,594	3,007	19,601
Occupancy	73,426	135,997	5,978	16,103	231,504	81,340	312,844
Other employee benefits	58,610	108,711	4,772	12,853	184,946	64,981	249,927
Payroll taxes	33,698	62,505	2,743	7,391	106,337	37,362	143,699
Printing and publications	-	-	-	51,017	51,017	-	51,017
Professional development program expense	-	2,324,125	6,604	14,890	2,345,619	-	2,345,619
Professional fees	106,719	199,947	8,689	23,405	338,760	41,467	380,227
Recruitment and retention	14,723	-	-	-	14,723	-	14,723
Retirement contribution	29,302	54,350	2,385	6,426	92,463	32,487	124,950
Salary	486,771	902,885	39,630	106,755	1,536,041	539,690	2,075,731
Scholarships	7,000	-	-	-	7,000	-	7,000
Supplies and postage	3,754	6,936	306	823	11,819	4,153	15,972
Technology	60,427	112,083	4,920	13,252	190,682	66,935	257,617
Travel	30,813	57,154	2,509	6,758	97,234	34,163	131,397
Total expenses	\$ 1,045,433	\$ 4,227,457	\$ 89,949	\$ 290,417	\$ 5,653,256	\$ 1,024,007	\$ 6,677,263

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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Membership dues received	\$ 1,338,467	\$ 1,795,725
Professional development program fees received	3,992,907	3,803,738
Other receipts	721,181	660,252
Interest and dividends received	77,012	48,756
Salaries and benefits paid to employees	(2,638,905)	(2,495,006)
Cash paid to suppliers	(4,127,048)	(3,861,431)
Interest paid on bank loan	(1,444)	(4,245)
Net cash and cash equivalents used in operating activities	<u>(637,830)</u>	<u>(52,211)</u>
Cash flows from investing activities		
Proceeds from sale of investments in marketable securities	1,577,836	503,754
Purchases of investments in marketable securities	(1,251,958)	(517,230)
Purchases of property, equipment, and software	(10,177)	(35,407)
Proceeds from sale of property, equipment, and software	-	2,741
Net cash and cash equivalents provided by (used in) investing activities	<u>315,701</u>	<u>(46,142)</u>
Cash flows from financing activities		
Payments on line of credit, net	-	(120,000)
Principal payments on note payable	(45,011)	(43,256)
Proceeds from restricted donation	-	5,000
Net cash and cash equivalents used in financing activities	<u>(45,011)</u>	<u>(158,256)</u>
Net decrease in cash and cash equivalents	<u>(367,140)</u>	<u>(256,609)</u>
Cash and cash equivalents, beginning of year	<u>785,651</u>	<u>1,042,260</u>
Cash and cash equivalents, end of year	<u>\$ 418,511</u>	<u>\$ 785,651</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, 2019 and 2018

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.

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, 2019 and 2018

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

Accounting Pronouncements Adopted

During the year ended June 30, 2019, the Organization adopted ASU No. 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The main provisions of this update include: presentation of two classes of net assets (reduced from three classes); reporting investment return net of external and direct internal investment expenses; qualitative information about management of liquidity; quantitative information about financial assets available within one year; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions.

The Association's June 30, 2018 net assets previously reported as temporarily restricted and permanently restricted are now reported as net assets with donor restrictions. Likewise, the Association's June 30, 2018 net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

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, 2019, cash balances did not exceed federally insured limits.

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, 2019 and 2018 was \$83,197 and \$82,440, 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, 2019 and 2018

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

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, 2019 and 2018, the Association established an allowance for doubtful accounts in the amount of \$19,609 and \$13,859, respectively.

The MACPA utilizes a hybrid subscription membership dues policy which was adopted during the year ended June 30, 2017. 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.

Dues revenue from advance billings represent 0% and 32% of total accounts receivable as of June 30, 2019 and 2018, respectively. The timing of dues billing and automatic credit card charges, and the related dues receivable and deferred revenue varied slightly between fiscal years based on the need to have staff available on a business day to respond to member questions and concerns in the first year of automatic credit card charges.

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.

The Association reports gifts of land, buildings, and equipment as unrestricted 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 restricted 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.

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, 2019 and 2018

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

Revenue Recognition (Continued)

Membership Dues

Membership dues are recognized as revenue over the course of the membership year, which coincides with the Association's fiscal year for approximately 89% of members. Newer members may start their memberships at various times during the year and are then on a different dues recognition cycle. Effective July 1, 2018 the amortization of membership dues began on the date the Association received payment. Prior to July 1, 2018 the amortization of membership dues coincided with the invoice date. Prior to July 1, 2018, any uncollected dues were written off and the related memberships terminated. Dues received in advance are deferred until earned.

For the 66% of members whose ages are known, approximately 70% and 68% of the Association's membership dues for the years ended June 30, 2019 and 2018, respectively, were received from members age 50 and older. Future membership dues revenue could be impacted if the Association is unable to replenish the membership with younger members.

Professional Development Program Fees

Revenue relating to professional development programs, including continuing education and consulting, are recognized when the programs are presented. Registration fees received prior to presentation are deferred until earned.

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 as the dues are assessed. Fees associated with triennial peer review examinations are recognized when the final report is accepted.

Change in Accounting Estimates

Effective July 1, 2018, the Association changed certain estimates in determining the calculation of revenue from membership dues as noted in the preceding footnote on revenue recognition. In accordance with Financial Accounting Standards Board ASC Topic 250 – *Accounting Changes and Error Corrections*, changes in accounting estimates are applied prospectively. The effect of these changes in estimates was to decrease revenue from membership dues by \$60,977 for the year ended June 30, 2019.

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.

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, 2019 and 2018

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

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 \$135,358 and \$110,414 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018.

Compensated Absences

Employees of the Association are entitled to paid days off depending on job classification, length of service, and other factors. The Association had accrued \$136,960 and \$134,779 for paid days off as of June 30, 2019 and 2018, respectively, and are included in accounts payable and accrued expenses on the consolidated statement of financial position.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement 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 \$1,532,237 and \$1,824,193 at June 30, 2019 and 2018, respectively. The Foundation held investment assets of \$412,796 and \$384,041 at June 30, 2019 and 2018, respectively. Of the Foundation's held investments, \$35,000 is classified as net assets with donor restriction as of June 30, 2019 and 2018 (see Note 7).

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, 2019 and 2018

2) Investments (Continued)

Financial Accounting Standards Board (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:

- 3) quoted prices for similar assets or liabilities in active markets;
- 4) quoted prices for identical or similar assets or liabilities in inactive markets;
- 5) inputs other than quoted prices that are observable for the asset or liability;
- 6) 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 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, 2019 and 2018.

Equity and Fixed Income Securities

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

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, 2019 and 2018

2) Investments (Continued)

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, 2019 and 2018. 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, 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>

Assets at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 592,473	\$ -	\$ -	\$ 592,473
Equity securities	1,231,720	-	-	1,231,720
Mutual funds	384,041	-	-	384,041
Total assets at fair value	<u>\$ 2,208,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,208,234</u>

Fixed income securities mature as follows:

	2019	2018
Within three years	\$ 226,808	\$ 238,469
Three to ten years	302,920	354,004
	<u>\$ 529,728</u>	<u>\$ 592,473</u>

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, 2019 and 2018

2) Investments (Continued)

Net investment income consisted of:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 75,725	\$ 48,756
Net realized and unrealized gains	67,942	120,452
Investment management fees	<u>(27,915)</u>	<u>(27,030)</u>
	<u>\$ 115,752</u>	<u>\$ 142,178</u>

Debt securities and a money market account with a total value of \$536,593 and \$602,094 at June 30, 2019 and 2018, respectively, are pledged to secure the bank line of credit described in Note 8.

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Deferred benefit (expense)		
Federal	\$ 102,658	\$ (17,923)
State	84,799	-
	187,457	(17,923)
Provision for deferred tax allowance	<u>(92,854)</u>	<u>-</u>
Deferred benefit (expense), net	<u>\$ 94,603</u>	<u>\$ (17,923)</u>

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, 2019 and 2018

3) Income Taxes (Continued)

The Association's total deferred tax assets as of June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax asset		
Federal	\$ 246,365	\$ 143,707
State	<u>84,799</u>	<u>-</u>
	331,164	143,707
Less: valuation allowance	<u>92,854</u>	<u>-</u>
Deferred tax asset, net	<u><u>\$ 238,310</u></u>	<u><u>\$ 143,707</u></u>

As of June 30, 2019, BLI, Inc. had net operating loss carryforwards in the amount of \$1,257,967. If not used, \$684,321 of the carryforwards will expire in years 2026 through 2038, the remaining \$573,646 of carryforwards do not expire.

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. The Association had a lease agreement for office and classroom space in Columbia, Maryland. The lease was payable in monthly installments of \$3,153 through November 30, 2017. The Association did not extend their lease in Columbia, Maryland.

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

<u>Years ending June 30,</u>	<u>Amount</u>
2020	\$ 200,583
2021	206,099
2022	211,767
2023	217,591
2024	223,575
Thereafter	<u>114,088</u>
Total future minimum lease payments	<u><u>\$ 1,173,703</u></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, 2019 and 2018

4) Lease Commitments (Continued)

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 \$207,973 and \$208,818 for the years ended June 30, 2019 and 2018, 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 \$118,683 and \$121,013 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, 2019 and 2018, 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, 2019 and 2018 were 3% of annual compensation.
- 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 \$137,503 and \$124,950 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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. The MACPA made no contributions to the Foundation for the years ended June 30, 2019 and 2018. The Foundation received restricted donations during the year ended June 30, 2018 in the amount of \$5,000.

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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, 2019 and 2018

6) Educational Foundation (Continued)

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

	2019	2018
Cash and investments	\$ 509,393	\$ 413,529
Contribution receivable	5,183	7,171
Total assets	<u>\$ 514,576</u>	<u>\$ 420,700</u>
Net assets without donor restrictions	\$ 474,273	\$ 381,788
Net assets with donor restrictions	40,303	38,912
Total net assets	<u>\$ 514,576</u>	<u>\$ 420,700</u>
Total revenue and gains	\$ 102,427	\$ 56,569
Total expenses and losses	8,551	9,000
Increase in net assets without donor restrictions	92,485	39,665
Increase in net assets with donor restrictions	1,391	7,904
Total increase in net assets	<u>\$ 93,876</u>	<u>\$ 47,569</u>

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 permanently restricted net assets consistent with generally accepted accounting principles. The Foundation believes that permanently 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.

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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, 2019 and 2018

7) Endowment Fund (Continued)

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, 2019 and 2018 are as follows:

	Purpose restricted	Endowment fund	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, June 30, 2017	\$ 1,008	\$ 30,000	\$ 31,008
Contributions	-	5,000	5,000
Investment income	3,404	-	3,404
Expenditures	(500)	-	(500)
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, June 30, 2018	3,912	35,000	38,912
Investment income	2,391	-	2,391
Expenditures	(1,000)	-	(1,000)
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, June 30, 2019	<u>\$ 5,303</u>	<u>\$ 35,000</u>	<u>\$ 40,303</u>

8) Line of Credit

The Association may borrow up to \$250,000 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, 2019 and 2018.

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%.

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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, 2019 and 2018

9) Note Payable (Continued)

The schedule of maturities for the note payable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	<u>\$ 5,928</u>

10) Liquidity Analysis

Financial assets at year end:	<u>Amount</u>
Cash and cash equivalents	\$ 418,511
Accounts receivable, net	633,394
Investments	<u>1,945,033</u>
Total financial assets	<u>2,996,938</u>
Less: contractual or donor imposed restrictions	
Purpose restricted	5,303
Endowment fund	<u>35,000</u>
Financial assets not available to be used within one year	<u>40,303</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,956,635</u>

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.

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 \$1,910,033 as of June 30, 2019. Additionally, the Association has a \$250,000 line of credit, as discussed in more detail in Note 8. As of June 30, 2019, \$250,000 remained available on the Association's line of credit.

11) Subsequent Events

Management has evaluated events and transactions subsequent to the consolidated statement of financial position date for potential recognition or disclosure through September 24, 2019, 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.