

**North Carolina Association of  
Certified Public Accountants, Inc.**

**Financial Statements  
and Independent Auditors' Report**

**April 30, 2017 and 2016**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

**North Carolina Association of  
Certified Public Accountants, Inc.**

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Independent Auditor's Report

To the Board of Directors  
North Carolina Association of Certified Public Accountants, Inc.

We have audited the accompanying financial statements of North Carolina Association of Certified Public Accountants, Inc., which comprise the statements of financial position as of April 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of North Carolina Association of Certified Public Accountants, Inc. as of April 30, 2017, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

The financial statements of North Carolina Association of Certified Public Accountants, Inc. as of April 30, 2016 were audited by auditors whose report dated September 8, 2016, expressed an unmodified opinion on those statements.

*CohnReznick LLP*

Charlotte, North Carolina  
September 26, 2017

**North Carolina Association of Certified Public Accountants, Inc.**

**Statements of Financial Position  
April 30, 2017 and 2016**

|                                     | <u>2017</u>         | <u>2016</u>         |
|-------------------------------------|---------------------|---------------------|
| Assets                              |                     |                     |
| Current assets                      |                     |                     |
| Cash and cash equivalents           | \$ 497,928          | \$ 1,030,594        |
| Accounts receivable                 | 61,840              | 37,826              |
| Investments                         | 4,039,997           | 3,701,542           |
| Prepaid expenses                    | 191,532             | 172,452             |
| Restricted investments - current    | <u>173,768</u>      | <u>265,134</u>      |
| Total current assets                | <u>4,965,065</u>    | <u>5,207,548</u>    |
| Property and equipment              |                     |                     |
| Building and improvements           | 2,201,792           | 2,200,389           |
| Computers and office equipment      | 1,083,671           | 1,081,281           |
| Furniture and fixtures              | 356,985             | 356,985             |
| Land                                | 249,563             | 249,563             |
| Vehicle                             | <u>56,081</u>       | <u>56,081</u>       |
|                                     | 3,948,092           | 3,944,299           |
| Less accumulated depreciation       | <u>(2,239,289)</u>  | <u>(2,402,855)</u>  |
|                                     | 1,708,803           | 1,541,444           |
| Construction in progress            | <u>630</u>          | <u>105,476</u>      |
| Total property and equipment        | <u>1,709,433</u>    | <u>1,646,920</u>    |
| Other long-term assets              |                     |                     |
| Restricted investments - noncurrent | <u>-</u>            | <u>117,924</u>      |
| Total other long-term assets        | <u>-</u>            | <u>117,924</u>      |
| Total assets                        | <u>\$ 6,674,498</u> | <u>\$ 6,972,392</u> |

North Carolina Association of Certified Public Accountants, Inc.

Statements of Financial Position  
April 30, 2017 and 2016

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Liabilities  |                     |                     |
| Current liabilities                                  |                     |                     |
| Accounts payable                                     | \$ 144,472          | \$ 178,395          |
| Deferred revenue                                     | 737,417             | 785,238             |
| Deferred compensation liability - current portion    | 218,218             | 265,134             |
| Accrued other liabilities                            | 63,176              | 77,678              |
| Accrued salary and payroll tax liabilities           | 96,127              | 138,416             |
| Accrued vacation                                     | 74,631              | 79,234              |
| Accrued retirement                                   | 59,919              | 54,194              |
|  | <u>1,393,960</u>    | <u>1,578,289</u>    |
| Deferred compensation liability - noncurrent portion | <u>-</u>            | <u>160,729</u>      |
| Total liabilities                                    | <u>1,393,960</u>    | <u>1,739,018</u>    |
| Unrestricted net assets                              | <u>5,280,538</u>    | <u>5,233,374</u>    |
| Total liabilities and net assets                     | <u>\$ 6,674,498</u> | <u>\$ 6,972,392</u> |

See Notes to Financial Statements.

**North Carolina Association of Certified Public Accountants, Inc.**

**Statements of Activities and Changes in Net Assets  
Years Ended April 30, 2017 and 2016**

|   | 2017         | 2016         |
|---|--------------|--------------|
| Revenues and other support                  |              |              |
| Professional education                      | \$ 5,497,577 | \$ 5,585,860 |
| Membership dues                             | 2,159,815    | 2,042,121    |
| Peer review administration fees             | 173,055      | 182,835      |
| Advertising, sponsorships, and other income | 175,261      | 153,715      |
| Member engagement                           | 85,420       | 64,855       |
| My member community                         | 63,492       | -            |
| Chapter meetings                            | -            | 52,659       |
| Investment return                           | 296,795      | 6,753        |
|   | <hr/>        | <hr/>        |
| Total revenues and other support            | 8,451,415    | 8,088,798    |
|   | <hr/>        | <hr/>        |
| Expenses                                    |              |              |
| Program services                            |              |              |
| Professional education                      | 4,667,880    | 4,528,093    |
| Communications and member services          | 1,286,574    | 1,246,491    |
| My member community                         | 173,950      | -            |
| Chapter relations                           | -            | 253,861      |
| Peer review                                 | 201,819      | 227,277      |
| Government relations                        | 86,055       | 98,163       |
|   | <hr/>        | <hr/>        |
| Total program services                      | 6,416,278    | 6,353,885    |
|   |              |              |
| Support services                            |              |              |
| Management                                  | 1,987,973    | 2,034,094    |
|   | <hr/>        | <hr/>        |
| Total expenses                              | 8,404,251    | 8,387,979    |
|   | <hr/>        | <hr/>        |
| Changes in net assets                       | 47,164       | (299,181)    |
|   | <hr/>        | <hr/>        |
| Net assets at beginning of year             | 5,233,374    | 5,532,555    |
|   | <hr/>        | <hr/>        |
| Net assets at end of year                   | \$ 5,280,538 | \$ 5,233,374 |
|   | <hr/> <hr/>  | <hr/> <hr/>  |

See Notes to Financial Statements.

**North Carolina Association of Certified Public Accountants, Inc.**

**Statement of Functional Expenses  
Year Ended April 30, 2017**

|   | Program Services       |                                    |                     |                   |                      |                     | Support Services    |                     |
|---|------------------------|------------------------------------|---------------------|-------------------|----------------------|---------------------|---------------------|---------------------|
|   | Professional Education | Communications and Member Services | My Member Community | Peer Review       | Government Relations | Total               | Management          | Total               |
| Materials, speakers, and site expenses  | \$ 3,337,743           | \$ -                               | \$ 58,435           | \$ -              | \$ -                 | \$ 3,396,178        | \$ -                | \$ 3,396,178        |
| Personnel expenses                      | 660,617                | 589,207                            | 57,822              | 57,822            | 57,822               | 1,423,290           | 1,467,812           | 2,891,102           |
| Printing, postage & emarketing          | 102,901                | 125,461                            |                     | 3,292             | 71                   | 231,725             | 6,993               | 238,718             |
| Depreciation                            | 105,613                | 77,028                             | 6,698               | 6,698             | 3,349                | 199,386             | 135,517             | 334,903             |
| Bank and merchant fees                  | 138,063                | 47,282                             | -                   | -                 | -                    | 185,345             | 3,782               | 189,127             |
| Peer review expenses                    | -                      | -                                  | -                   | 112,011           | -                    | 112,011             | -                   | 112,011             |
| Building expenses                       | 36,881                 | 26,508                             | 2,305               | 2,305             | 1,153                | 69,152              | 46,100              | 115,252             |
| Technology support                      | 105,481                | 71,174                             | 21,115              | 4,514             | -                    | 202,284             | 96,004              | 298,288             |
| Staff travel                            | 40,415                 | 27,675                             | 2,281               | 40                | -                    | 70,411              | 57,478              | 127,889             |
| Professional services                   | 23,366                 | 16,795                             | 1,460               | 1,460             | 730                  | 43,811              | 29,210              | 73,021              |
| Scholarships and contributions          | -                      | 41,707                             | 9,925               | -                 | -                    | 51,632              | 1,521               | 53,153              |
| Leadership summit                       | 26,518                 | 19,889                             | 1,657               | 1,657             | -                    | 49,721              | 33,149              | 82,870              |
| Committee expenses                      | 4,039                  | 37,726                             | 8,139               | 7,536             | 1,176                | 58,616              | -                   | 58,616              |
| Office equipment rental and repairs     | 14,756                 | 10,606                             | 922                 | 922               | 461                  | 27,667              | 18,446              | 46,113              |
| Board and officer expenses              | 21,977                 | 15,796                             | 1,374               | 1,374             | 687                  | 41,208              | 27,470              | 68,678              |
| New CPA Inauguration                    | -                      | 81,040                             | -                   | -                 | -                    | 81,040              | -                   | 81,040              |
| Member engagement                       | -                      | 10,666                             | -                   | -                 | -                    | 10,666              | -                   | 10,666              |
| Student leadership institute            | -                      | 21,850                             | -                   | -                 | -                    | 21,850              | -                   | 21,850              |
| Office supplies and expense             | 10,725                 | 5,617                              | 379                 | 250               | 107                  | 17,078              | 9,645               | 26,723              |
| Telecommunications                      | 13,142                 | 9,446                              | 821                 | 821               | 411                  | 24,641              | 16,428              | 41,069              |
| Staff training                          | 11,370                 | 8,569                              |                     | 500               | -                    | 20,439              | 17,911              | 38,350              |
| Business insurance                      | 6,294                  | 4,524                              | 393                 | 393               | 197                  | 11,801              | 7,869               | 19,670              |
| Unrelated business income and proxy tax | -                      | -                                  | -                   | -                 | 19,779               | 19,779              | -                   | 19,779              |
| Image enhancement                       | -                      | 32,556                             | -                   | -                 | -                    | 32,556              | -                   | 32,556              |
| Dues and subscriptions                  | 6,263                  | 3,550                              | 117                 | 117               | 58                   | 10,105              | 10,491              | 20,596              |
| Gain/loss on disposal of equipment      | 1,716                  | 1,233                              | 107                 | 107               | 54                   | 3,217               | 2,147               | 5,364               |
| Student recruitment                     | -                      | 669                                | -                   | -                 | -                    | 669                 | -                   | 669                 |
|   | <u>\$ 4,667,880</u>    | <u>\$ 1,286,574</u>                | <u>\$ 173,950</u>   | <u>\$ 201,819</u> | <u>\$ 86,055</u>     | <u>\$ 6,416,278</u> | <u>\$ 1,987,973</u> | <u>\$ 8,404,251</u> |



**North Carolina Association of Certified Public Accountants, Inc.**

**Statement of Functional Expenses  
Year Ended April 30, 2016**

|   | Program Services       |                                    |                   |                   |                      |                     | Support Services    |                     |
|---|------------------------|------------------------------------|-------------------|-------------------|----------------------|---------------------|---------------------|---------------------|
|   | Professional Education | Communications and Member Services | Chapter Relations | Peer Review       | Government Relations | Total               | Management          | Total               |
| Materials, speakers, and site expenses  | \$ 3,255,191           | \$ -                               | \$ 91,784         | \$ -              | \$ -                 | \$ 3,346,975        | \$ -                | \$ 3,346,975        |
| Personnel expenses                      | 614,218                | 549,792                            | 88,695            | 46,225            | 75,694               | 1,374,624           | 1,514,450           | 2,889,074           |
| Printing, postage & emarketing          | 140,719                | 127,486                            | 1,199             | 1,829             | 58                   | 271,291             | 5,721               | 277,012             |
| Depreciation                            | 94,481                 | 71,675                             | 13,032            | 9,774             | 3,258                | 192,220             | 133,576             | 325,796             |
| Bank and merchant fees                  | 138,499                | 46,166                             | -                 | -                 | -                    | 184,665             | -                   | 184,665             |
| Peer review expenses                    | -                      | -                                  | -                 | 144,109           | -                    | 144,109             | -                   | 144,109             |
| Building expenses                       | 34,272                 | 25,999                             | 4,727             | 2,954             | 1,182                | 69,134              | 49,043              | 118,177             |
| Technology support                      | 73,624                 | 81,166                             | 8,103             | 5,064             | -                    | 167,957             | 87,498              | 255,455             |
| Staff travel                            | 46,687                 | 37,557                             | 5,355             | 500               | -                    | 90,099              | 58,693              | 148,792             |
| Professional services                   | 16,582                 | 12,579                             | 2,287             | 1,429             | 572                  | 33,449              | 23,728              | 57,177              |
| Scholarships and contributions          | -                      | 50,993                             | 14,375            | -                 | -                    | 65,368              | -                   | 65,368              |
| Leadership summit                       | 17,986                 | 14,575                             | 2,481             | 1,551             | -                    | 36,593              | 25,429              | 62,022              |
| Committee expenses                      | 5,216                  | 27,008                             | -                 | 7,486             | 700                  | 40,410              | -                   | 40,410              |
| Office equipment rental and repairs     | 13,949                 | 10,582                             | 1,924             | 1,202             | 481                  | 28,138              | 19,961              | 48,099              |
| Board and officer expenses              | 31,362                 | 23,792                             | 8,928             | 2,704             | 1,081                | 67,867              | 44,906              | 112,773             |
| New CPA Inauguration                    | -                      | 49,935                             | -                 | -                 | -                    | 49,935              | -                   | 49,935              |
| Member engagement                       | -                      | 10,700                             | -                 | -                 | -                    | 10,700              | -                   | 10,700              |
| Student leadership institute            | -                      | 28,663                             | -                 | -                 | -                    | 28,663              | -                   | 28,663              |
| Office supplies and expense             | 8,899                  | 15,208                             | 8,370             | 325               | 114                  | 32,916              | 11,534              | 44,450              |
| Telecommunications                      | 12,004                 | 8,952                              | 1,628             | 1,017             | 407                  | 24,008              | 16,683              | 40,691              |
| Staff training                          | 13,176                 | 20,155                             | -                 | 500               | -                    | 33,831              | 26,003              | 59,834              |
| Business insurance                      | 6,126                  | 4,648                              | 845               | 528               | 211                  | 12,358              | 8,766               | 21,124              |
| Unrelated business income and proxy tax | -                      | -                                  | -                 | -                 | 14,372               | 14,372              | -                   | 14,372              |
| Image enhancement                       | -                      | 22,881                             | -                 | -                 | -                    | 22,881              | -                   | 22,881              |
| Dues and subscriptions                  | 4,999                  | 2,295                              | 114               | 71                | 29                   | 7,508               | 7,955               | 15,463              |
| Gain/loss on disposal of equipment      | 103                    | 78                                 | 14                | 9                 | 4                    | 208                 | 148                 | 356                 |
| Student recruitment                     | -                      | 3,606                              | -                 | -                 | -                    | 3,606               | -                   | 3,606               |
|   | <u>\$ 4,528,093</u>    | <u>\$ 1,246,491</u>                | <u>\$ 253,861</u> | <u>\$ 227,277</u> | <u>\$ 98,163</u>     | <u>\$ 6,353,885</u> | <u>\$ 2,034,094</u> | <u>\$ 8,387,979</u> |

See Notes to Financial Statements.

**North Carolina Association of Certified Public Accountants, Inc.**

**Statements of Cash Flows  
Years Ended April 30, 2017 and 2016**

|  | <u>2017</u>       | <u>2016</u>         |
|--|-------------------|---------------------|
| Cash flows from operating activities   |                   |                     |
| Changes in net assets  | \$ 47,164         | \$ (299,181)        |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: |                   |                     |
| Depreciation   | 334,903           | 325,796             |
| Realized (gain) loss on investments  | (87,365)          | (916)               |
| Unrealized (gain) loss on investments  | (148,209)         | 38,087              |
| Loss on disposal of fixed assets   | 5,364             | 354                 |
| Net changes in assets and liabilities that provided (used) cash  |                   |                     |
| Accounts receivable  | (24,014)          | 67,282              |
| Prepaid expenses   | (19,080)          | (59,882)            |
| Restricted investments   | 209,290           | (66,169)            |
| Accounts payable   | (33,923)          | (111,151)           |
| Deferred revenue   | (47,821)          | (251,685)           |
| Accrued retirement   | 5,725             | 422                 |
| Accrued salary   | (42,289)          | 65,167              |
| Accrued vacation   | (4,603)           | (15,258)            |
| Accrued other liabilities  | (14,502)          | 9,960               |
| Deferred compensation liability  | <u>(207,645)</u>  | <u>69,559</u>       |
| Net cash provided by (used in) operating activities  | <u>(27,005)</u>   | <u>(227,615)</u>    |
| Cash flows from investing activities   |                   |                     |
| Purchases of investments   | (3,892,165)       | (24,419)            |
| Sales of investments   | 3,789,284         | -                   |
| Purchases of property and equipment  | <u>(402,780)</u>  | <u>(243,453)</u>    |
| Net cash provided by (used in) investing activities  | <u>(505,661)</u>  | <u>(267,872)</u>    |
| Net increase (decrease) in cash and cash equivalents   | (532,666)         | (495,487)           |
| Cash and cash equivalents at beginning of year   | <u>1,030,594</u>  | <u>1,526,081</u>    |
| Cash and cash equivalents at end of year   | <u>\$ 497,928</u> | <u>\$ 1,030,594</u> |
| Supplemental disclosures   |                   |                     |
| Cash paid for proxy tax  | <u>\$ 14,372</u>  | <u>\$ 14,962</u>    |

See Notes to Financial Statements.

**North Carolina Association of Certified Public Accountants, Inc.**

**Notes to Financial Statements  
April 30, 2017 and 2016**

**Note 1 - Organization**

The North Carolina Association of Certified Public Accountants, Inc. ("Association"), chartered in the State of North Carolina in 1919, is the statewide professional organization for Certified Public Accountants. The Association is headquartered in Morrisville and provides outreach to local areas throughout the state.

The Association is organized to promote the advancement of the certified public accounting profession by serving its members, encouraging high professional and ethical standards, advancing accounting research, providing accounting education, and furthering the interest of the profession. Its mission is to promote the competence, integrity, civic responsibility, and success of North Carolina Certified Public Accountants. Its primary sources of revenue are derived from professional education classes and member dues.

**Note 2 - Summary of significant accounting policies**

**Basis of accounting**

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

**Basis of presentation**

The Association follows Financial Accounting Standards Board ("FASB") ASC 958-205, Not for Profit Entities - Revenue Recognition, and FASB ASC 958-605, *Not for Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association did not have any temporarily restricted net assets or permanently restricted net assets as of April 30, 2017 and 2016.

**Contributions**

In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions.

**Cash and cash equivalents**

For purposes of reporting the statements of cash flows, the Association considers all highly liquid investments, except those classified as deferred compensation investments, purchased with original maturities of three months or less to be cash equivalents.

**North Carolina Association of Certified Public Accountants, Inc.**

**Notes to Financial Statements  
April 30, 2017 and 2016**

**Receivables**

The Association records accounts receivable at total unpaid balances for peer review fees and onsite continuing professional education courses, which approximates estimated fair value as of April 30, 2017. At year end, the Association determined that all receivables were collectible.

The following is a summary of accounts receivable as of April 30:

|   | 2017             | 2016             |
|---|------------------|------------------|
| Trade   | \$ 37,303        | \$ 31,217        |
| Royalty and other receivables                   | 22,497           | 6,541            |
| Related party receivables and other receivables | 2,040            | 69               |
|   | <u>\$ 61,840</u> | <u>\$ 37,827</u> |

**Investments**

Financial statement presentation for investments follows professional standards governing investments held by not-for-profit organizations. Under these standards, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position.

Unrealized gains and losses on investments due to changes in market value are included in the changes in net assets.

Realized gains and losses, if any, are determined using specific identification method.

**Property and equipment and construction in progress**

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Asset lives range from 5 to 31.5 years for building and improvements, and 3 to 7 years for computers, office equipment, furniture and fixtures, and vehicles. The Association's capitalization threshold is \$500.

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

**Deferred revenue**

Membership dues received are recorded as deferred revenue and recognized as income in the period earned. Registration fees for continuing professional education courses and other events are recorded as deferred revenue and recognized as income when the course or event is held.

**Income taxes**

The Association is a not-for-profit organization and is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code. However, certain activities not directly related to the Association's tax-exempt purpose are subject to taxation. The Association's primary activities subject to taxation include member affinity programs, advertising, commissions, and lobbying efforts.

The Association is not currently under examination by the Internal Revenue Service or the State of North Carolina. The Association's taxable years that are open for potential examination are for the years ended April 30, 2014 through 2017.

## **North Carolina Association of Certified Public Accountants, Inc.**

### **Notes to Financial Statements April 30, 2017 and 2016**

#### **Functional allocations of expenses**

The costs of providing the various programs and the administration of the Association have been summarized on a functional basis in the statements of functional expenses. Certain costs have been allocated on the basis of time records and estimates made by Association management.

#### **Program services**

##### **Professional services**

The Association provides educational programs designed to maintain and improve the skills of CPAs. Professional education is also a requirement for CPA certification renewal.

##### **Communication and member services**

The Association disseminates information to its members as it relates to changes in the accounting profession and also seeks to educate the general public about the nature and diversity of business services that are provided by members. The Association also offers various business benefits to its members.

##### **My Member Community**

Prior to April 30, 2016, NCACPA included eleven local chapters, designed to provide opportunities to members through meeting and event planning to enhance communication and community involvement within the profession at the local level. In fiscal year 2017, the Association introduced My Member Community, which included an online portal for NCACPA members to connect, impact, and grow in ways that are more meaningful to them. Through technology, NCACPA is able to provide ways for members to communicate and engage with one another when they want, where they want and how they want. The online portal includes opportunities through Volunteer Match, Connect and Mentor Match. Coupled with more grassroots events, including meetups and small networking groups, NCACPA has expanded from a geographic model to a more unified, collaborative community.

##### **Peer review**

The Association administers the peer review program for the American Institute of Certified Public Accountants ("AICPA") and the North Carolina State Board of Certified Public Accountant Examiners for firms required to have peer reviews for licensing requirements in North Carolina. The peer review program ensures that enrolled firms conduct their practice in accordance with the AICPA Code of Professional Conduct and that each firm has in place quality control procedures to ensure that all accounting and auditing services are competently delivered.

##### **Government relations**

The Association interacts with executive staff in North Carolina state government agencies, federal agencies, and U.S. Congress on behalf of the membership and the accounting profession. The Association monitors, and, in some cases, attempts to influence legislation that impacts its members as well as their employers and clients.

#### **Donated services**

Association members donate significant time by serving on various committees, boards and planning local area events. No amounts have been reflected in the financial statements for volunteered time since the services performed do not meet the requirements for recognition in the financial statements.

#### **Reclassifications**

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

**North Carolina Association of Certified Public Accountants, Inc.**

**Notes to Financial Statements  
April 30, 2017 and 2016**

**Use of estimates**

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

**Fair value of financial instruments**

Professional standards require disclosure about the fair value for all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about fair value of financial instruments are based on pertinent information available to management as of April 30, 2017 and 2016. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments. Management has estimated that the fair values of cash, accounts receivable, accounts payable, accrued expenses and short-term borrowings to be approximately their respective carrying values reported in these financial statements because of their short maturities

**Note 3 - Concentration of credit risk**

The Association places its cash and cash equivalents with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers up to \$250,000 for substantially all depository accounts. The Association exceeded these limits by \$242,072 and \$687,952 as of April 30, 2017 and 2016, respectively.

The Association also maintains separate investment accounts that are protected by the Securities Investor Protection Corporation ("SIPC"). The SIPC is a nonprofit membership corporation funded by its member securities broker-dealers. The SIPC insures against the loss or theft of securities as well as the failure or insolvency of a brokerage firm. The insurance does not apply to losses related to market risk or investment fraud. At April 30, 2017 and 2016, the limits of protection extended up to \$500,000 for securities, including \$250,000 for cash and cash equivalents. The Association exceeded the insured limits by \$3,539,997 and \$2,322,694 as of April 30, 2017 and 2016, respectively.

The Association also maintains separate cash equivalents and investments that are not protected by SIPC or FDIC. For these funds, there is no insurance against the loss or theft of securities as well as the failure or insolvency of a brokerage firm. As of April 30, 2017 and 2016, these uninsured funds totaled \$5,856 and \$924,554, respectively.

**Note 4 - Investments**

Investments as April 30, 2017 consist of the following:

|                                       | <u>Historical cost</u> | <u>Fair value</u>   |
|---------------------------------------|------------------------|---------------------|
| Bond funds                            | \$ 1,951,764           | \$ 1,963,953        |
| Equity funds                          | 1,940,024              | 2,076,044           |
| Mutual funds - restricted investments | 169,866                | 173,768             |
|                                       | <u>\$ 4,061,654</u>    | <u>\$ 4,213,765</u> |

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**Notes to Financial Statements  
April 30, 2017 and 2016**

Investments as April 30, 2016 consist of the following:

|                                       | <u>Historical cost</u> | <u>Fair value</u>   |
|---------------------------------------|------------------------|---------------------|
| Bond funds                            | \$ 2,503,934           | \$ 2,493,165        |
| Equity funds                          | 866,500                | 1,208,377           |
| Mutual funds - restricted investments | <u>271,422</u>         | <u>383,058</u>      |
|                                       | <u>\$ 3,641,856</u>    | <u>\$ 4,084,600</u> |

The following summarized the investment return for the fiscal years ended April 30, 2017 and 2016, respectively:

|                                       | <u>2017</u>       | <u>2016</u>     |
|---------------------------------------|-------------------|-----------------|
| Unrealized gain (loss) on investments | \$ 148,209        | \$ (38,087)     |
| Interest and dividends                | 61,221            | 43,924          |
| Realized gain on investments          | <u>87,365</u>     | <u>916</u>      |
|                                       | <u>\$ 296,795</u> | <u>\$ 6,753</u> |

**Note 5 - Fair market value measurements**

The Association applies Generally Accepted Accounting Principles ("GAAP") for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as 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. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Professional standards establish 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 One Inputs) and the lowest priority to measurements involving significant unobservable inputs (Level Three Inputs). The three levels of the fair value hierarchy are as follows:

- Level One Inputs - are unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level Two Inputs - include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly.
- Level Three Inputs - are unobservable and significant to the overall fair value for the asset or liability

The level in the fair value hierarchy within which a fair measurement in its entirety falls based on the lowest level input that is significant to the fair value measurement in its entirety.

**North Carolina Association of Certified Public Accountants, Inc.**

**Notes to Financial Statements  
April 30, 2017 and 2016**

The following table presents assets that are measured at fair value on a recurring basis at April 30, 2017:

Fair value measurements at reporting date using:

|                                       | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------------|---------------------|----------------|----------------|
| Bond funds                            | \$ 1,963,953        | \$ -           | \$ -           |
| Equity funds                          | 2,076,044           | -              | -              |
| Mutual funds - restricted investments | <u>173,768</u>      | <u>-</u>       | <u>-</u>       |
| Total                                 | <u>\$ 4,213,765</u> | <u>\$ -</u>    | <u>\$ -</u>    |

The following table presents assets that are measured at fair value on a recurring basis at April 30, 2016:

Fair value measurements at reporting date using:

|                                       | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------------|---------------------|----------------|----------------|
| Bond funds                            | \$ 2,493,165        | \$ -           | \$ -           |
| Equity funds                          | 1,208,377           | -              | -              |
| Mutual funds - restricted investments | <u>383,058</u>      | <u>-</u>       | <u>-</u>       |
| Total                                 | <u>\$ 4,084,600</u> | <u>\$ -</u>    | <u>\$ -</u>    |

**Note 6 - Deferred compensation plans**

The Association provided deferred compensation plans (defined contribution) for the benefit of the prior Chief Executive Officer ("prior CEO") and current Chief Executive Officer ("current CEO") and has established individual brokerage firm trust accounts to manage the funds contributed to each plan. The individual brokerage firm trust accounts record the current value of required contributions, including earnings, credited thereto.

The Association made annual contributions to the prior CEO's deferred compensation plan equal to 10% of the prior CEO's annual gross salary. The deferred compensation account for the prior CEO became fully vested as of April 30, 2016. A lump sum payment was made on June 24, 2016 to relieve this liability.

Effective May 1, 2012, a deferred compensation plan was established for the Association's current CEO, formerly the Chief Operating Officer. The Association makes annual contributions to the plan equal to 15% of the current CEO's annual gross salary. The deferred compensation account will become fully vested on the earliest of the following dates: May 1, 2017; the date the current CEO becomes disabled; or the date of the current CEO's death; or if the current CEO is involuntarily terminated for a reason other than good cause by the Association before any of the above dates. A lump sum payment was made on August 15, 2017 to relieve this liability.

The value of the restricted investments held in the brokerage accounts for the deferred compensation plans totaled \$173,768 and \$383,058 as of April 30, 2017 and 2016, respectively. The corresponding liabilities totaled \$218,218 and \$425,863 as of April 30, 2017 and 2016,



**North Carolina Association of Certified Public Accountants, Inc.**

**Notes to Financial Statements  
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respectively. The difference between the asset and liability accounts of \$44,450 and \$42,805 reflect deposits made to the brokerage accounts subsequent to year end in May 2017 and 2016, respectively.

**Note 7 - Retirement plan**

The Association has a flexible 401(k) profit sharing plan. The Plan covers substantially all employees meeting age and service requirements. The Association contributes five percent of annual compensation for all eligible employees into the Profit Sharing plan. As part of the 401(k) Plan, the Association also will match 100 percent of the first two percent of employee contributions, with an additional three percent safe harbor contribution. Retirement contributions totaled \$185,627 and \$162,988 for the years ended April 30, 2017 and 2016, respectively.

**Note 8 - Lease commitments**

The Association has two operating lease agreements for copiers and a digital mailing system. The operating lease agreements will expire April 2019 and August 2017, respectively. Future minimum lease payments due under these operating lease agreements are summarized as follows:

|                       |      |    |                      |
|-----------------------|------|----|----------------------|
| Year ending April 30, | 2018 | \$ | 9,324                |
|                       | 2019 |    | <u>5,964</u>         |
|                       |      | \$ | <u><u>15,288</u></u> |

Total rental expense for the years ended April 30, 2017 and 2016 was \$16,869 and \$18,662, respectively.

**Note 9 - Related party transactions**

The North Carolina CPA Foundation, Inc. ("Foundation"), which is managed by the Association, provides educational scholarships and awards to students and educators. The Association acts as an agent on behalf of the Foundation in the collection of contributions and in the payment of certain operating expenses, which are subsequently reimbursed. The approximate cost of the unreimbursed Association employees' time spent on Foundation activities totaled \$18,641 and \$27,234 for the fiscal years ending April 30, 2017 and 2016, respectively.

The Association made contributions to the Foundation totaling \$50,632 and \$57,768 during the years ending April 30, 2017 and 2016, respectively. At April 30, 2017 and 2016, the net amount owed by the Association to the Foundation totaled \$10,439 and \$7,845, respectively.

**Note 10 - Subsequent events**

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Association through September 26, 2017 (date which the financial statements were available to be issued) and, concluded that no subsequent events have occurred that would require either recognition or additional disclosure in the financial statements.

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