

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

**Consolidated Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**April 30, 2019 and 2018**

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

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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of North Carolina Association of Certified Public Accountants, Inc. and Affiliate, which comprise the consolidated statements of financial position as of April 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, 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 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 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 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of North Carolina Association of Certified Public Accountants, Inc. and Affiliate as of April 30, 2019 and 2018, and the consolidated changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Adoption of New Accounting Guidance*

As discussed in Note 2 to the consolidated financial statements, North Carolina Association of Certified Public Accountants, Inc. and Affiliate adopted the Financial Accounting Standards Board's Accounting Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended April 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented with the exception of certain disclosures regarding liquidity and availability of resources as provided by the standard. Our opinion is not modified with respect to this matter.

*Other Matters*

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 21 to 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*CohnReznick LLP*

Charlotte, North Carolina  
October 10, 2019

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

**Consolidated Statements of Financial Position  
April 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,914,382	\$ 1,149,596
Accounts receivable	58,559	34,521
Investments	4,784,975	4,561,787
Prepaid expenses	320,655	221,927
Restricted investments	<u>377,892</u>	<u>250,833</u>
Total current assets	<u>7,456,463</u>	<u>6,218,664</u>
Property and equipment		
Building and improvements	2,124,779	2,210,215
Computers and office equipment	1,120,664	1,172,794
Furniture and fixtures	340,906	342,485
Land	249,563	249,563
Vehicle	<u>56,081</u>	<u>56,081</u>
Less accumulated depreciation	<u>3,891,993</u> <u>(2,860,674)</u>	<u>4,031,138</u> <u>(2,680,278)</u>
Construction in progress	<u>1,031,319</u> <u>204,873</u>	<u>1,350,860</u> <u>18,600</u>
Total property and equipment	<u>1,236,192</u>	<u>1,369,460</u>
Total assets	<u><u>\$ 8,692,655</u></u>	<u><u>\$ 7,588,124</u></u>

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

**Consolidated Statements of Financial Position  
April 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 56,679	\$ 176,393
Deferred revenue	1,104,591	847,300
Accrued other liabilities	374,665	68,051
Accrued salary and payroll tax liabilities	117,989	97,334
Accrued vacation	89,071	75,973
Accrued retirement	<u>60,034</u>	<u>61,225</u>
Total current liabilities	<u>1,803,029</u>	<u>1,326,276</u>
Noncurrent liabilities		
Deferred compensation liability	<u>48,300</u>	<u>-</u>
Total liabilities	<u>1,851,329</u>	<u>1,326,276</u>
Net assets		
Net assets without donor restrictions	6,496,977	5,944,686
Net assets with donor restrictions	<u>344,349</u>	<u>317,162</u>
Total net assets	<u>6,841,326</u>	<u>6,261,848</u>
Total liabilities and net assets	<u><u>\$ 8,692,655</u></u>	<u><u>\$ 7,588,124</u></u>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended April 30, 2019**

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Total</u>
Revenues and other support			
Professional education	\$ 5,794,285	\$ -	\$ 5,794,285
Membership dues	2,353,056	-	2,353,056
Peer review administration fees	280,228	-	280,228
Advertising, sponsorships, and other income	208,837	-	208,837
My Member Community	33,123	-	33,123
Foundation contributions	99,678	37,874	137,552
Investment return	307,232	34,499	341,731
	<u>9,076,439</u>	<u>72,373</u>	<u>9,148,812</u>
Net assets released from restrictions	<u>45,186</u>	<u>(45,186)</u>	<u>-</u>
Total revenues and other support	<u>9,121,625</u>	<u>27,187</u>	<u>9,148,812</u>
Expenses			
Program services			
Professional education	4,452,300	-	4,452,300
Communications and member services	1,219,478	-	1,219,478
My Member Community	122,454	-	122,454
Peer review	251,924	-	251,924
Government relations	155,584	-	155,584
NC CPA Foundation	152,207	-	152,207
Total program services	<u>6,353,947</u>	<u>-</u>	<u>6,353,947</u>
Support services			
Management	<u>2,215,387</u>	<u>-</u>	<u>2,215,387</u>
Total expenses	<u>8,569,334</u>	<u>-</u>	<u>8,569,334</u>
Changes in net assets	552,291	27,187	579,478
Net assets at beginning of year	<u>5,944,686</u>	<u>317,162</u>	<u>6,261,848</u>
Net assets at end of year	<u>\$ 6,496,977</u>	<u>\$ 344,349</u>	<u>\$ 6,841,326</u>

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

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended April 30, 2018**

	Net assets without donor restrictions	Net assets with donor restrictions	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenues and other support			
Professional education	\$ 5,978,679	\$ -	\$ 5,978,679
Membership dues	2,177,038	-	2,177,038
Peer review administration fees	162,005	-	162,005
Advertising, sponsorships, and other income	164,658	-	164,658
Member engagement	40,100	-	40,100
My Member Community	52,416	-	52,416
Foundation contributions	33,261	34,087	67,348
Investment return	264,095	-	264,095
	<u>8,872,252</u>	<u>34,087</u>	<u>8,906,339</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>8,872,252</u>	<u>34,087</u>	<u>8,906,339</u>
Expenses			
Program services			
Professional education	4,626,674	-	4,626,674
Communications and member services	1,229,670	-	1,229,670
My Member Community	173,938	-	173,938
Peer review	235,870	-	235,870
Government relations	98,434	-	98,434
NC CPA Foundation	14,055	-	14,055
Total program services	<u>6,378,641</u>	<u>-</u>	<u>6,378,641</u>
Support services			
Management	<u>2,123,058</u>	<u>-</u>	<u>2,123,058</u>
Total expenses	<u>8,501,699</u>	<u>-</u>	<u>8,501,699</u>
Changes in net assets	370,553	34,087	404,640
Net assets at beginning of year	<u>5,574,133</u>	<u>283,075</u>	<u>5,857,208</u>
Net assets at end of year	<u>\$ 5,944,686</u>	<u>\$ 317,162</u>	<u>\$ 6,261,848</u>

See Notes to Consolidated Financial Statements.



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

**Consolidated Statement of Functional Expenses  
Year Ended April 30, 2019**

	Program Services						Support Services		
	Professional Education	Communications and Member Services	My Member Community	Peer Review	Government Relations	Foundation	Total	Management	Total
Materials, speakers, and site expenses	\$ 3,179,612	\$ -	\$ 48,987	\$ -	\$ -	\$ 723	\$ 3,229,322	\$ -	\$ 3,229,322
Personnel expenses	592,979	623,204	29,676	59,353	89,029	-	1,394,241	1,572,848	2,967,089
Printing, postage and emarketing	109,955	103,541	-	1,867	250	2,410	218,023	6,133	224,156
Depreciation	121,115	108,139	8,651	8,651	8,651	-	255,207	177,348	432,555
Bank and merchant fees	179,528	56,564	-	-	-	325	236,417	9,837	246,254
Peer review expenses	-	-	-	163,872	-	-	163,872	-	163,872
Building expenses	36,904	32,951	2,636	2,636	2,636	-	77,763	54,039	131,802
Technology support	77,440	82,426	19,588	5,604	4,746	-	189,804	108,664	298,468
Staff travel	31,917	11,190	3,441	2,148	-	-	48,696	58,900	107,596
Professional services	31,142	30,425	2,224	2,224	2,224	6,185	74,424	45,622	120,046
Scholarships and gifts	-	100	500	-	-	142,564	143,164	4,484	147,648
Leadership summit	15,392	13,743	1,099	1,099	1,099	-	32,432	22,734	55,166
Committee expenses	4,009	23,850	-	-	11,886	-	39,745	-	39,745
Office equipment rental and repairs	15,914	14,209	1,137	1,137	1,137	-	33,534	23,303	56,837
Board and officer expenses	8,763	7,825	626	626	626	-	18,466	12,833	31,299
New CPA Inauguration	-	66,226	-	-	-	-	66,226	-	66,226
Member engagement	-	5,080	-	-	-	-	5,080	-	5,080
Office supplies and expense	11,372	5,217	304	385	304	-	17,582	9,197	26,779
Telecommunications	13,771	12,296	984	984	984	-	29,019	20,165	49,184
Staff training	9,454	11,401	-	883	-	-	21,738	68,608	90,346
Business insurance	5,366	4,791	383	383	383	-	11,306	7,856	19,162
Unrelated business income and proxy tax	-	-	-	-	31,557	-	31,557	-	31,557
Image enhancement	-	-	-	-	-	-	-	2,159	2,159
Dues and subscriptions	7,667	6,300	72	72	72	-	14,183	10,657	24,840
Student recruitment	-	-	2,146	-	-	-	2,146	-	2,146
	<u>\$ 4,452,300</u>	<u>\$ 1,219,478</u>	<u>\$ 122,454</u>	<u>\$ 251,924</u>	<u>\$ 155,584</u>	<u>\$ 152,207</u>	<u>\$ 6,353,947</u>	<u>\$ 2,215,387</u>	<u>\$ 8,569,334</u>

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

**Consolidated Statement of Functional Expenses  
Year Ended April 30, 2018**

	Program Services						Support Services		
	Professional Education	Communications and Member Services	My Member Community	Peer Review	Government Relations	Foundation	Total	Management	Total
Materials, speakers, and site expenses	\$ 3,252,718	\$ -	\$ 57,263	\$ -	\$ -	\$ 1,476	\$ 3,311,457	\$ -	\$ 3,311,457
Personnel expenses	635,458	577,689	57,769	57,769	57,769	-	1,386,454	1,501,990	2,888,444
Printing, postage and emarketing	108,948	81,114	-	1,697	55	300	192,114	5,441	197,555
Depreciation	137,412	109,930	9,161	9,161	4,580	-	270,244	187,796	458,040
Bank and merchant fees	163,194	51,417	-	-	-	379	214,990	8,942	223,932
Peer review expenses	-	-	-	143,530	-	-	143,530	-	143,530
Building expenses	34,965	27,973	2,331	2,331	1,166	-	68,766	47,787	116,553
Technology support	84,212	75,582	22,480	4,827	2,414	-	189,515	126,960	316,475
Staff travel	35,860	24,287	4,266	85	-	-	64,498	50,417	114,915
Professional services	67,975	75,200	2,532	2,532	1,266	11,900	161,405	51,913	213,318
Scholarships and gifts	-	-	-	-	-	-	-	2,258	2,258
Leadership summit	18,134	14,506	1,209	1,209	604	-	35,662	24,781	60,443
Committee expenses	6,775	26,799	12,396	7,684	992	-	54,646	-	54,646
Office equipment rental and repairs	22,933	18,347	1,529	1,529	764	-	45,102	31,342	76,444
Board and officer expenses	19,587	15,671	1,306	1,306	653	-	38,523	26,771	65,294
New CPA Inauguration	-	75,955	-	-	-	-	75,955	-	75,955
Member engagement	-	17,458	-	-	-	-	17,458	-	17,458
Office supplies and expense	9,715	8,251	410	424	106	-	18,906	9,063	27,969
Telecommunications	12,843	10,273	856	856	428	-	25,256	17,550	42,806
Staff training	6,043	11,191	-	500	-	-	17,734	11,940	29,674
Business insurance	5,101	4,081	340	340	170	-	10,032	6,971	17,003
Unrelated business income and proxy tax	-	-	-	-	27,422	-	27,422	-	27,422
Image enhancement	-	-	-	-	-	-	-	10	10
Dues and subscriptions	4,801	3,668	90	90	45	-	8,694	11,126	19,820
Student recruitment	-	278	-	-	-	-	278	-	278
	<u>\$ 4,626,674</u>	<u>\$ 1,229,670</u>	<u>\$ 173,938</u>	<u>\$ 235,870</u>	<u>\$ 98,434</u>	<u>\$ 14,055</u>	<u>\$ 6,378,641</u>	<u>\$ 2,123,058</u>	<u>\$ 8,501,699</u>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statements of Cash Flows  
Years Ended April 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Changes in net assets	\$ 579,478	\$ 404,640
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	432,555	458,040
Realized (gain) loss on investments	(18,887)	(1,054)
Unrealized (gain) loss on investments	(180,362)	(135,752)
Net changes in assets and liabilities that provided (used) cash		
Accounts receivable	(24,038)	26,171
Prepaid expenses	(98,728)	(30,395)
Restricted investments	(127,059)	144,292
Accounts payable	(151,212)	17,506
Deferred revenue	257,291	109,883
Accrued retirement	(1,191)	1,306
Accrued salary	20,655	1,207
Accrued vacation	13,098	1,342
Accrued other liabilities	306,614	4,875
Deferred compensation liability	48,300	(218,218)
	<u>1,056,514</u>	<u>783,843</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchases of investments	(295,897)	(123,030)
Sales of investments	271,958	14,803
Purchases of property and equipment	(267,789)	(94,652)
	<u>(291,728)</u>	<u>(202,879)</u>
Net cash used in investing activities		
Net increase in cash and cash equivalents	764,786	580,964
Cash and cash equivalents at beginning of year	<u>1,149,596</u>	<u>568,632</u>
Cash and cash equivalents at end of year	<u>\$ 1,914,382</u>	<u>\$ 1,149,596</u>
Noncash investing activities		
Purchases of construction in process in accounts payable	<u>\$ 31,498</u>	<u>\$ 23,415</u>
Supplemental disclosures		
Cash paid for proxy tax	<u>\$ 31,557</u>	<u>\$ 27,422</u>

See Notes to Consolidated Financial Statements.

## North Carolina Association of Certified Public Accountants, Inc. and Affiliate

### Notes to Consolidated Financial Statements April 30, 2019 and 2018

#### 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.

The North Carolina Certified Public Accountant Foundation, Inc. ("Foundation"), was established in 1980 to further the development of accounting education and the accounting profession in North Carolina.

The Association and Foundation are collectively known as the Organization.

#### 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 Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not for Profit Entities - Presentation of Financial Statements*, and FASB ASC 958-605, *Not for Profit Entities - Revenue Recognition*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

##### **Principles of consolidation**

The accompanying consolidated financial statements include the accounts of the Association and its controlled affiliate, the Foundation. The Foundation is a corporation in which the Association's Board of Directors makes up the entire membership. These entities are included in the consolidation according to generally accepted accounting principles ("GAAP") which require that accounts be consolidated for corporations which are deemed to be controlled by the Association. All intercompany transactions have been eliminated in consolidation.

##### **Contributions**

In accordance with FASB ASC 958-605, contributions received are recorded as revenue without donor restrictions or revenue with donor restrictions depending on the existence and nature of any donor restrictions.

##### **Cash and cash equivalents**

For purposes of reporting the statements of cash flows, the Organization 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. and Affiliate**

**Notes to Consolidated Financial Statements  
April 30, 2019 and 2018**

**Receivables**

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

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

	<u>2019</u>	<u>2018</u>
Trade	\$ 48,827	\$ 27,708
Royalty and other receivables	1,350	6,250
Other receivables	<u>8,382</u>	<u>563</u>
	<u>\$ 58,559</u>	<u>\$ 34,521</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.

The board of directors designates a portion of net assets without donor restrictions to an operating reserve. At April 30, 2019 and 2018 the operating reserve was \$1,400,000 and \$1,400,000, respectively. This reserve may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

At April 30, 2019 and 2018, investments were as follows:

	<u>2019</u>	<u>2018</u>
Unrestricted Investments - Board Designated	\$ 1,400,000	\$ 1,400,000
Unrestricted Investments	3,384,975	3,161,787
Restricted Investments	<u>377,892</u>	<u>250,833</u>
	<u>\$ 5,162,867</u>	<u>\$ 4,812,620</u>

**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 three to seven years for computers, office equipment, furniture and fixtures, and vehicles. The Organization'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.

## North Carolina Association of Certified Public Accountants, Inc. and Affiliate

### Notes to Consolidated Financial Statements April 30, 2019 and 2018

#### 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. While none of the Association's income tax returns are currently being examined by the Internal Revenue Service, tax years since the year ended April 30, 2016 remain open for potential examination.

The Foundation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions provided in Section 170(b)(1)(A)(vi).

The Foundation is not currently under examination by the Internal Revenue Service or the State of North Carolina. While none of the Foundation's income tax returns are currently being examined by the Internal Revenue Service, tax years since the year ended April 30, 2016 remain open for potential examination.

#### Functional allocations of expenses

The costs of providing the various programs and the administration of the Organization 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 the Organization's 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

The Association introduced My Member Community in fiscal year 2017, 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.

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

### **Notes to Consolidated Financial Statements April 30, 2019 and 2018**

#### **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.

#### **Foundation**

The Foundation awards scholarships to accounting students attending North Carolina four-year colleges and universities, as well as community colleges. The Foundation recognizes one accounting educator at a North Carolina College or University for demonstrated excellence in classroom teaching, motivating students, educational innovation, and active involvement in activities related to the accounting profession. As part of their recognition, the Foundation provides an award to their school on the educator's behalf.

#### **Donated services**

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

#### **Use of estimates**

The preparation of the consolidated 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 consolidated 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, 2019 and 2018. Accordingly, the estimates presented in these consolidated 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 consolidated financial statements because of their short maturities.

#### **Reclassifications**

Reclassifications have been made to the prior year balances to conform to the current year presentation.

#### **Change in accounting principle**

During the year ended April 30, 2019, the Organization adopted the provisions of Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU

## North Carolina Association of Certified Public Accountants, Inc. and Affiliate

### Notes to Consolidated Financial Statements April 30, 2019 and 2018

2016-14"). The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied on a retrospective basis.

#### **Note 3 - Concentration of credit risk**

The Organization 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 Organization exceeded these limits by \$1,609,572 and \$904,097 as of April 30, 2019 and 2018, respectively.

The Organization 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, 2019 and 2018, the limits of protection extended up to \$500,000 for securities, including \$250,000 for cash and cash equivalents. Organization exceeded the insured limits by \$4,277,074 and \$4,006,020 as of April 30, 2019 and 2018, respectively.

The Organization 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, 2019 and 2018, these uninsured funds totaled \$7,901 and \$7,974, respectively.

#### **Note 4 - Liquidity and availability**

The Organization has \$7,456,463 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$1,914,382, accounts receivable of \$58,559, investments of \$5,162,867, and prepaid expenses of \$320,655.

The Organization maintains a policy of structuring its financial assets to be available as general expenditures, liabilities and other obligations come due.

Because of the seasonality of the Organization's business, operating funds will experience significant variability during the fiscal year. Cash may exceed short-term requirements for short periods of time. Any excess funds are held in checking accounts at the primary financial institution of the Association or in short-term money-market funds.

The Organization has evaluated and determined not to commit to an operating line of credit based on current liquidity and need versus expense to the Organization.



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

**Notes to Consolidated Financial Statements  
April 30, 2019 and 2018**

**Note 5 - Investments**

Investments as April 30, 2019 consist of the following:

	<u>Historical cost</u>	<u>Fair value</u>
Bond funds	\$ 2,260,321	\$ 2,283,817
Equity funds	1,877,201	2,262,868
Mutual funds	<u>623,006</u>	<u>616,182</u>
	<u>\$ 4,760,528</u>	<u>\$ 5,162,867</u>

Investments as April 30, 2018 consist of the following:

	<u>Historical cost</u>	<u>Fair value</u>
Bond funds	\$ 1,972,307	\$ 1,958,569
Equity funds	1,995,350	2,304,592
Mutual funds	<u>541,949</u>	<u>549,459</u>
	<u>\$ 4,509,606</u>	<u>\$ 4,812,620</u>

The following summarized the investment return for the fiscal years ended April 30, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Unrealized gain (loss) on investments	\$ 180,362	\$ 135,752
Interest and dividends	145,334	129,980
Realized gain on investments	18,887	1,054
Investment fees	<u>(2,852)</u>	<u>(2,691)</u>
	<u>\$ 341,731</u>	<u>\$ 264,095</u>

**Note 6 - Fair market value measurements**

The Organization applies Generally Accepted Accounting Principles ("GAAP") for fair value measurements of financial assets that are recognized or disclosed at fair value in the consolidated 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.

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

**Notes to Consolidated Financial Statements  
April 30, 2019 and 2018**

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.

The following table presents assets that are measured at fair value on a recurring basis at April 30, 2019:

Fair value measurements at reporting date using:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bond funds	\$ 2,283,817	\$ -	\$ -
Equity funds	2,262,868	-	-
Mutual funds	616,182	-	-
<b>Total</b>	<b>\$ 5,162,867</b>	<b>\$ -</b>	<b>\$ -</b>

The following table presents assets that are measured at fair value on a recurring basis at April 30, 2018:

Fair value measurements at reporting date using:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bond funds	\$ 1,958,569	\$ -	\$ -
Equity funds	2,304,592	-	-
Mutual funds	549,459	-	-
<b>Total</b>	<b>\$ 4,812,620</b>	<b>\$ -</b>	<b>\$ -</b>

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

**Notes to Consolidated Financial Statements  
April 30, 2019 and 2018**

**Note 7 - Deferred compensation plans**

Effective May 1, 2018, a deferred compensation plan was established for the Association's CEO. The Association makes annual contributions to the plan equal to 15% of the CEO's annual gross salary. The deferred compensation account will become fully vested on the earliest of the following dates: April 30, 2023; 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. During the year ended April 30, 2018, no deferred compensation plan was in place.

At April 30, 2019, the Association is in the process of establishing a brokerage firm trust account to manage the funds contributed to the plan. The brokerage firm trust account will record the current value of required contributions, including earnings, credited thereto.

As of April 30, 2019, no amount has been deposited for the deferred compensation plan. The corresponding liability totaled \$48,300 as of April 30, 2019. The difference between the asset and liability accounts of \$48,300 reflect deposits the Association will make to the brokerage account subsequent to year end.

**Note 8 - 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 \$178,851 and \$180,133 for the years ended April 30, 2019 and 2018, respectively.

**Note 9 - Lease commitments**

The Association has two operating lease agreements for copiers and a digital mailing system. The operating lease agreements expire April 2023. Future minimum lease payments due under these operating lease agreements is summarized as follows:

Year ending April 30,	2020	\$	5,838
	2021		5,838
	2022		5,838
	2023		6,568
			<u>24,082</u>
		\$	<u>24,082</u>

Total rental expense for the years ended April 30, 2019 and 2018 was \$17,709 and \$20,547, respectively.

**Note 10 - Net assets with donor restrictions**

The James L. McCoy, CPA Accounting Scholarship Fund was established to award scholarships to accounting students based on need and academic achievement. Scholarships from this fund are granted at the discretion of the Board of Directors of the Foundation. The fund was primarily supported by a joint effort between the late James L. McCoy, who donated time spent conducting an annual seminar, and NCACPA, which donated the net proceeds from the annual seminar. Per

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

**Notes to Consolidated Financial Statements  
April 30, 2019 and 2018**

agreement with the donor, the Foundation will distribute the greater of the earnings of the fund for the preceding calendar year or four percent of the principal balance as of the preceding December 31 year-end.

For the years ended April 30, 2019 and 2018, the Association contributed \$5,335 and \$8,793, respectively, to the Fund, all of which were eliminated for financial statement presentation. Additional contributions of \$37,874 and \$18,142 were received during the years ended April 30, 2019 and 2018, respectively. Scholarships totaling \$16,000 and \$0 were awarded from the fund during the years ended April 30, 2019 and 2018, respectively. During fiscal year 2018, the Foundation's board of directors voted to not issue any scholarships due to a relaunch of the scholarship process.

Net assets with donor restrictions are available for the following purposes at April 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
James L. McCoy, CPA Accounting Scholarship	\$ 323,497	\$ 273,929
Local Area and Committee Scholarship Funds	20,852	31,167
Max Mukelabai Leadership Training Fund	-	12,066
	<u>\$ 344,349</u>	<u>\$ 317,162</u>

**Note 11 - Related party transactions**

The Foundation 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 \$37,933 and \$21,645 for the fiscal years ending April 30, 2019 and 2018, respectively, all of which were eliminated for financial statement presentation. The Association made contributions to the Foundation totaling \$41,793 and \$44,465 during the years ending April 30, 2019 and 2018, respectively, all of which were eliminated for financial statement presentation.

**Note 12 - Subsequent events**

Events that occur after the consolidated statement of financial position date but before the consolidated 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 consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through October 10, 2019 (date which the consolidated 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 consolidated financial statements.

## **Supplementary Information**

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

**Consolidating Statement of Financial Position  
April 30, 2019**

	NCACPA	NC CPA Foundation	Eliminations	Consolidated NCACPA
<b>Assets</b>				
Cash and cash equivalents	\$ 1,745,400	\$ 168,982	\$ -	\$ 1,914,382
Accounts receivable	63,496	1,235	(6,172)	58,559
Investments	4,546,685	238,290	-	4,784,975
Prepaid expenses	320,655	-	-	320,655
Restricted investments	-	377,892	-	377,892
Building and improvements	2,124,779	-	-	2,124,779
Computers and office equipment	1,120,664	-	-	1,120,664
Furniture and fixtures	340,906	-	-	340,906
Land	249,563	-	-	249,563
Vehicle	56,081	-	-	56,081
Accumulated depreciation	(2,860,674)	-	-	(2,860,674)
Construction in progress	200,013	4,860	-	204,873
<b>Total assets</b>	<b>\$ 7,907,568</b>	<b>\$ 791,259</b>	<b>\$ (6,172)</b>	<b>\$ 8,692,655</b>
<b>Liabilities</b>				
Accounts payable	\$ 57,859	\$ -	\$ (1,180)	\$ 56,679
Accounts payable - related party	-	4,992	(4,992)	-
Deferred revenue	1,104,591	-	-	1,104,591
Accrued other liabilities	374,665	-	-	374,665
Accrued salary and payroll tax liabilities	117,989	-	-	117,989
Accrued vacation	89,071	-	-	89,071
Accrued retirement	60,034	-	-	60,034
Deferred compensation liability	48,300	-	-	48,300
<b>Total liabilities</b>	<b>1,852,509</b>	<b>4,992</b>	<b>(6,172)</b>	<b>1,851,329</b>
<b>Net assets</b>				
Net assets without donor restrictions	6,055,059	422,022	19,896	6,496,977
Net assets with donor restrictions	-	364,245	(19,896)	344,349
<b>Total net assets</b>	<b>6,055,059</b>	<b>786,267</b>	<b>-</b>	<b>6,841,326</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,907,568</b>	<b>\$ 791,259</b>	<b>\$ (6,172)</b>	<b>\$ 8,692,655</b>

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

**Consolidating Statement of Financial Position  
April 30, 2018**

	<u>NCACPA</u>	<u>NC CPA Foundation</u>	<u>Eliminations</u>	<u>Consolidated NCACPA</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 980,065	\$ 169,531	\$ -	\$ 1,149,596
Accounts receivable	39,996	1,330	(6,805)	34,521
Investments	4,263,161	298,626	-	4,561,787
Prepaid expenses	221,927	-	-	221,927
Restricted investments	-	250,833	-	250,833
Building and improvements	2,210,215	-	-	2,210,215
Computers and office equipment	1,172,794	-	-	1,172,794
Furniture and fixtures	342,485	-	-	342,485
Land	249,563	-	-	249,563
Vehicle	56,081	-	-	56,081
Accumulated depreciation	(2,680,278)	-	-	(2,680,278)
Construction in progress	18,600	-	-	18,600
<b>Total assets</b>	<b>\$ 6,874,609</b>	<b>\$ 720,320</b>	<b>\$ (6,805)</b>	<b>\$ 7,588,124</b>
<b>Liabilities</b>				
Accounts payable	\$ 177,668	\$ -	\$ (1,275)	\$ 176,393
Accounts payable - related party	-	5,530	(5,530)	-
Deferred revenue	847,300	-	-	847,300
Accrued other liabilities	68,051	-	-	68,051
Accrued salary and payroll tax liabilities	97,334	-	-	97,334
Accrued vacation	75,973	-	-	75,973
Accrued retirement	61,225	-	-	61,225
Deferred compensation liability	-	-	-	-
<b>Total liabilities</b>	<b>1,327,551</b>	<b>5,530</b>	<b>(6,805)</b>	<b>1,326,276</b>
<b>Net assets</b>				
Net assets without donor restrictions	5,547,058	383,067	14,561	5,944,686
Net assets with donor restrictions	-	331,723	(14,561)	317,162
<b>Total net assets</b>	<b>5,547,058</b>	<b>714,790</b>	<b>-</b>	<b>6,261,848</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,874,609</b>	<b>\$ 720,320</b>	<b>\$ (6,805)</b>	<b>\$ 7,588,124</b>

See Independent Auditor's Report.

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

**Consolidating Statement of Activities and Changes in Net Assets  
Year Ended April 30, 2019**

	NCACPA	NC CPA Foundation	Eliminations	Consolidated NCACPA
Revenues and other support				
Professional education	\$ 5,794,285	\$ -	\$ -	\$ 5,794,285
Membership dues	2,353,056	-	-	2,353,056
Peer review administration fees	280,228	-	-	280,228
Advertising, sponsorships, and other income	208,837	-	-	208,837
Member engagement	-	-	-	-
My member community	33,123	-	-	33,123
Foundation contributions	-	184,680	(47,128)	137,552
In-kind contribution - related party	-	37,933	(37,933)	-
Investment return	302,727	39,004	-	341,731
	<u>8,972,256</u>	<u>261,617</u>	<u>(85,061)</u>	<u>9,148,812</u>
Total revenues and other support				
Expenses				
Materials, speakers, and site expenses	3,228,599	723	-	3,229,322
Personnel expenses	2,967,089	-	-	2,967,089
Printing, postage & emarketing	221,746	2,410	-	224,156
Depreciation	432,555	-	-	432,555
Bank and merchant fees	245,929	325	-	246,254
Peer review expenses	163,872	-	-	163,872
Building expenses	131,802	-	-	131,802
Technology support	298,468	-	-	298,468
Staff travel	107,596	-	-	107,596
Professional services	113,861	6,185	-	120,046
Scholarships and gifts	5,084	142,564	-	147,648
Related party contributions	47,128	-	(47,128)	-
Leadership summit	55,166	-	-	55,166
Committee expenses	39,745	-	-	39,745
Office equipment rental and repairs	56,837	-	-	56,837
Board and officer expenses	31,299	-	-	31,299
New CPA Inauguration	66,226	-	-	66,226
Member engagement	5,080	-	-	5,080
Office supplies and expense	26,779	-	-	26,779
Telecommunications	49,184	-	-	49,184
Staff training	90,346	-	-	90,346
Business insurance	19,162	-	-	19,162
Unrelated business income and proxy tax	31,557	-	-	31,557
Image enhancement	2,159	-	-	2,159
Dues and subscriptions	24,840	-	-	24,840
Student recruitment	2,146	-	-	2,146
In-kind management fee - related party	-	37,933	(37,933)	-
	<u>8,464,255</u>	<u>190,140</u>	<u>(85,061)</u>	<u>8,569,334</u>
Total expenses				
Excess (deficiency) of revenues over expenses	508,001	71,477	-	579,478
Net assets at beginning of year	<u>5,547,058</u>	<u>714,790</u>	<u>-</u>	<u>6,261,848</u>
Net assets at end of year	<u>\$ 6,055,059</u>	<u>\$ 786,267</u>	<u>\$ -</u>	<u>\$ 6,841,326</u>



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

**Consolidating Statement of Activities and Changes in Net Assets  
Year Ended April 30, 2018**

	NCACPA	NC CPA Foundation	Eliminations	Consolidated NCACPA
Revenues and other support				
Professional education	\$ 5,978,679	\$ -	\$ -	\$ 5,978,679
Membership dues	2,177,038	-	-	2,177,038
Peer review administration fees	162,005	-	-	162,005
Advertising, sponsorships, and other income	164,658	-	-	164,658
Member engagement	40,100	-	-	40,100
My member community	52,416	-	-	52,416
Foundation contributions	-	120,606	(53,258)	67,348
In-kind contribution - related party	-	21,645	(21,645)	-
Investment return	232,526	31,569	-	264,095
	<u>8,807,422</u>	<u>173,820</u>	<u>(74,903)</u>	<u>8,906,339</u>
Total revenues and other support				
Expenses				
Materials, speakers, and site expenses	3,309,981	1,476	-	3,311,457
Personnel expenses	2,888,444	-	-	2,888,444
Printing, postage and emarketing	197,255	300	-	197,555
Depreciation	458,040	-	-	458,040
Bank and merchant fees	223,553	379	-	223,932
Peer review expenses	143,530	-	-	143,530
Building expenses	116,553	-	-	116,553
Technology support	316,475	-	-	316,475
Staff travel	114,915	-	-	114,915
Professional services	201,418	11,900	-	213,318
Scholarships and gifts	2,258	-	-	2,258
Related party contributions	53,258	-	(53,258)	-
Leadership summit	60,443	-	-	60,443
Committee expenses	54,646	-	-	54,646
Office equipment rental and repairs	76,444	-	-	76,444
Board and officer expenses	65,294	-	-	65,294
New CPA Inauguration	75,955	-	-	75,955
Member engagement	17,458	-	-	17,458
Office supplies and expense	27,969	-	-	27,969
Telecommunications	42,806	-	-	42,806
Staff training	29,674	-	-	29,674
Business insurance	17,003	-	-	17,003
Unrelated business income and proxy tax	27,422	-	-	27,422
Image enhancement	10	-	-	10
Dues and subscriptions	19,820	-	-	19,820
Student recruitment	278	-	-	278
In-kind management fee - related party	-	21,645	(21,645)	-
	<u>8,540,902</u>	<u>35,700</u>	<u>(74,903)</u>	<u>8,501,699</u>
Total expenses				
Excess (deficiency) of revenues over expenses	266,520	138,120	-	404,640
Net assets at beginning of year	<u>5,280,538</u>	<u>576,670</u>	<u>-</u>	<u>5,857,208</u>
Net assets at end of year	<u>\$ 5,547,058</u>	<u>\$ 714,790</u>	<u>\$ -</u>	<u>\$ 6,261,848</u>

See Independent Auditor's Report.

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