

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

Consolidated Financial Statements
For the Years Ended June 30, 2017 and 2016



HERTZBACH
certified public accountants · consultants

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

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the Maryland Association of Certified Public Accountants, Inc. and Related Organizations which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Maryland Association of Certified Public Accountants, Inc. and Related Organizations as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hertzbach & Company, P.A.

Owings Mills, Maryland
September 21, 2017

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

Consolidated Statements of Financial Position
As of June 30, 2017 and 2016

Assets	2017	2016
Current assets		
Cash and cash equivalents	\$ 1,042,260	\$ 292,393
Investments	2,044,306	2,451,255
Accounts receivable, net	972,797	525,430
Prepaid expenses	59,621	72,616
Total current assets	<u>4,118,984</u>	<u>3,341,694</u>
Property, equipment, and software		
Office furniture and equipment	447,096	442,560
Leasehold improvements	87,332	87,332
Software and website development	246,259	240,259
	<u>780,687</u>	<u>770,151</u>
Less: accumulated depreciation	562,187	463,036
Total property, equipment, and software, net	<u>218,500</u>	<u>307,115</u>
Other assets		
Deposits	3,757	3,757
Deferred tax asset	161,630	158,254
Restricted investments	30,000	25,000
Total other assets	<u>195,387</u>	<u>187,011</u>
Total assets	<u>\$ 4,532,871</u>	<u>\$ 3,835,820</u>

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

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

Consolidated Statements of Financial Position (Continued)
As of June 30, 2017 and 2016

	2017	2016
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 803,923	\$ 1,357,006
Line of credit	120,000	-
Current portion of note payable	43,256	40,746
Deferred revenue:		
Dues	1,388,577	399,135
Other	204,625	263,205
Total current liabilities	<u>2,560,381</u>	<u>2,060,092</u>
Noncurrent liabilities		
Deferred rent	119,018	111,938
Note payable, net of current portion	50,939	95,127
Total noncurrent liabilities	<u>169,957</u>	<u>207,065</u>
Total liabilities	<u>2,730,338</u>	<u>2,267,157</u>
Net assets		
Unrestricted	1,771,525	1,543,663
Temporarily restricted	1,008	-
Permanently restricted	30,000	25,000
Total net assets	<u>1,802,533</u>	<u>1,568,663</u>
Total liabilities and net assets	<u>\$ 4,532,871</u>	<u>\$ 3,835,820</u>

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

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

Consolidated Statement of Activities
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Membership dues	\$ 2,145,703	\$ -	\$ -	\$ 2,145,703
Professional development program fees	3,852,282	-	-	3,852,282
Self-regulation fees	145,990	-	-	145,990
Net investment income	204,546	1,008	-	205,554
Advertising and sponsorships	291,365	-	-	291,365
Donation	5,934	-	5,000	10,934
Other	225,053	-	-	225,053
Total revenue and gains	<u>6,870,873</u>	<u>1,008</u>	<u>5,000</u>	<u>6,876,881</u>
Expenses				
Program service	5,458,890	-	-	5,458,890
Management and general	1,187,497	-	-	1,187,497
Total expenses	<u>6,646,387</u>	<u>-</u>	<u>-</u>	<u>6,646,387</u>
Change in net assets before provision for income tax benefit	224,486	1,008	5,000	230,494
Provision for income tax benefit	<u>3,376</u>	<u>-</u>	<u>-</u>	<u>3,376</u>
Change in net assets	227,862	1,008	5,000	233,870
Net assets, beginning of year	<u>1,543,663</u>	<u>-</u>	<u>25,000</u>	<u>1,568,663</u>
Net assets, end of year	<u>\$ 1,771,525</u>	<u>\$ 1,008</u>	<u>\$ 30,000</u>	<u>\$ 1,802,533</u>

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

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

Consolidated Statement of Activities
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and other support				
Membership dues	\$ 2,183,378	\$ -	\$ -	\$ 2,183,378
Professional development program fees	3,578,261	-	-	3,578,261
Self-regulation fees	182,820	-	-	182,820
Net investment income	4,659	(813)	-	3,846
Advertising and sponsorships	235,970	-	-	235,970
Other	80,046	-	-	80,046
Total revenue and gains	<u>6,265,134</u>	<u>(813)</u>	<u>-</u>	<u>6,264,321</u>
Expenses				
Program services	5,135,710	-	-	5,135,710
Management and general	1,575,538	-	-	1,575,538
Total expenses	<u>6,711,248</u>	<u>-</u>	<u>-</u>	<u>6,711,248</u>
Change in net assets before provision for income tax benefit	(446,114)	(813)	-	(446,927)
Provision for income tax expense	<u>(24,989)</u>	<u>-</u>	<u>-</u>	<u>(24,989)</u>
Change in net assets	(471,103)	(813)	-	(471,916)
Net assets, beginning of year	<u>2,014,766</u>	<u>813</u>	<u>25,000</u>	<u>2,040,579</u>
Net assets, end of year	<u>\$ 1,543,663</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 1,568,663</u>

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

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

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Bank fees	\$ 110,555	\$ 38,843	\$ 149,398
Depreciation	-	101,983	101,983
Miscellaneous	21,844	7,159	29,003
Occupancy	264,244	92,843	357,087
Other employee benefits	159,796	45,323	205,119
Payroll taxes	109,160	30,590	139,750
Printing and publications	44,350	-	44,350
Professional development program expense	2,350,780	-	2,350,780
Professional fees	600,786	241,981	842,767
Recruitment and retention	18,300	-	18,300
Retirement contribution	94,651	23,869	118,520
Salary	1,491,511	540,113	2,031,624
Scholarships	8,500	-	8,500
Supplies and postage	16,796	5,901	22,697
Technology	102,087	35,868	137,955
Travel	65,530	23,024	88,554
Total expenses	<u>\$ 5,458,890</u>	<u>\$ 1,187,497</u>	<u>\$ 6,646,387</u>

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

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

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program	Management and General	Total
Bad debt	\$ 1,067	\$ -	\$ 1,067
Bank fees	90,617	46,621	137,238
Depreciation	-	102,033	102,033
Miscellaneous	33,945	20,777	54,722
Occupancy	241,334	124,324	365,658
Other employee benefits	188,210	88,214	276,424
Payroll taxes	92,744	47,777	140,521
Printing and publications	55,258	-	55,258
Professional development program expense	2,483,866	-	2,483,866
Professional fees	401,474	345,274	746,748
Recruitment and retention	24,139	-	24,139
Retirement contribution	91,178	46,971	138,149
Salary	1,298,094	687,203	1,985,297
Scholarships	5,000	-	5,000
Supplies and postage	25,667	13,223	38,890
Technology	65,773	33,883	99,656
Travel	37,344	19,238	56,582
Total expenses	<u>\$ 5,135,710</u>	<u>\$ 1,575,538</u>	<u>\$ 6,711,248</u>

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

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

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Membership dues received	\$ 2,722,522	\$ 1,140,753
Professional development program fees received	3,833,680	3,709,217
Other fees received	609,472	525,624
Interest and dividends received	47,969	55,721
Salaries and benefits paid to employees	(2,400,665)	(2,541,656)
Cash paid to suppliers	(4,716,731)	(3,740,273)
Interest paid on bank loan	(6,568)	(6,107)
Net cash and cash equivalents provided by (used in) operating activities	89,679	(856,721)
Cash flows from investing activities		
Proceeds from sale of investments in marketable securities	1,194,718	825,816
Purchases of investments in marketable securities	(604,859)	(712,844)
Purchases of property, equipment, and software	(13,368)	(90,106)
Proceeds from sale of property, equipment, and software	375	-
Net cash and cash equivalents provided by investing activities	576,866	22,866
Cash flows from financing activities		
Proceeds from line of credit, net	120,000	100,000
Principal payments on note payable	(41,678)	(140,809)
Proceeds from permanently restricted donation	5,000	-
Net cash and cash equivalents provided by (used in) financing activities	83,322	(40,809)
Net increase (decrease) in cash and cash equivalents	749,867	(874,664)
Cash and cash equivalents, beginning of year	292,393	1,167,057
Cash and cash equivalents, end of year	\$ 1,042,260	\$ 292,393

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

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

Consolidated Statements of Cash Flows (Continued)
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to net cash and cash equivalents provided by (used in) operating activities		
Change in net assets	\$ 233,870	\$ (471,916)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization expense	101,983	102,033
(Gain) loss on sale of property, equipment, and software	(375)	16,918
Deferred income tax benefit	(3,376)	24,989
Bad debt (recovery) expense	(2,249)	1,067
Net realized and unrealized (gains) losses on investments in marketable securities	(188,567)	18,955
Proceeds from permanently restricted donations	(5,000)	-
(Increase) decrease in:		
Accounts receivable	(427,735)	151,892
Prepaid expenses	21,415	127,515
Increase (decrease) in:		
Accounts payable and accrued expenses	(578,230)	195,301
Deferred rent	7,080	12,029
Deferred revenue	930,863	(1,035,504)
Net cash and cash equivalents provided by (used in) operating activities	<u>\$ 89,679</u>	<u>\$ (856,721)</u>

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

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

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2017 and 2016

1) Nature of Organization and Summary of Significant Accounting Policies

Organization

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

Principles of Consolidation

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

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

Accounting Estimates

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

Cash and Cash Equivalents

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

The Association maintains cash balances at a financial institution located in the Baltimore metropolitan area. These balances are secured by the Federal Deposit Insurance Corporation. At June 30, 2017, cash balances did not exceed federally insured limits.

Investments in Marketable Securities

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

Property, Equipment, and Software

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

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Property, Equipment, and Software (Continued)

Software and Website Development Costs	2 - 5 years
Office Furniture and Equipment	3 - 10 years
Leasehold Improvements	4 - 10 years

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$101,983 and \$102,033, respectively.

Accounts Receivable

Management estimates the net realizable value of accounts receivable by reviewing the Association's detailed accounts receivable, current and past-due. Based upon this review, management estimates the amount that may not be collectible. This estimate is the basis for the allowance for doubtful accounts. As of June 30, 2017 and 2016, the Association established an allowance for doubtful accounts in the amount of \$10,393 and \$12,642, respectively.

Membership dues are billed in advance of the corresponding membership year. Management recognizes dues receivable and the related deferred revenue at the time of these billings. Dues receivable from advance billings represented 49% and 2% of total accounts receivable as of June 30, 2017 and 2016, respectively.

Donations

Donations received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted donations whose restrictions are met in the same reporting period are recorded as unrestricted donations.

The Association reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. All donations are recorded as revenue when received or a promise to give is made.

Revenue Recognition

Membership dues are recognized as revenue over the membership year, which coincides with the Association's fiscal year. Any uncollected dues at the end of each year are written off, and the related memberships are terminated. Dues received in advance are deferred until earned.

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

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Revenue Recognition (Continued)

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

Donated Services

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

Advertising and Website Costs

Costs incurred in the planning stage of developing a website and costs incurred for website maintenance are expensed as incurred. Costs incurred for website enhancement are generally capitalized and depreciated over the estimated useful life. Costs of advertising and promotional campaigns are expensed as incurred. Advertising costs amounted to \$59,536 and \$71,946 for the years ended June 30, 2017 and 2016, respectively.

Functional Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the programs and supporting services benefited. Actual results could differ from those estimates.

Income Taxes

A provision for income taxes is provided for the tax effects of transactions reported in the financial statements of BLI, Inc. (a for profit entity) and consist of taxes currently due plus deferred taxes related to operating losses that are available to offset future federal and state income taxes. There were no taxes due for either of the years ended June 30, 2017 and 2016.

Reclassification

Certain 2016 balances have been reclassified to conform to the 2017 presentation. Total net assets and change in net assets are unchanged due to these reclassifications.

2) Investments

The MACPA and the Foundation maintain reserve funds invested in marketable securities with the goals of preservation of capital and purchasing power. The targeted asset allocation prescribed in the Investment Policy is 65% equities and 35% fixed income securities. The MACPA held investment assets of \$1,728,716 and \$2,143,489 at June 30, 2017 and 2016, respectively. The Foundation held investment assets of \$345,590 and \$332,766 at June 30, 2017 and 2016, respectively. Of the Foundation's held investments, \$30,000 and \$25,000 are deemed permanently restricted as of June 30, 2017 and 2016, respectively (see Note 7).

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

2) Investments (Continued)

Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no change in methodologies used at June 30, 2017 and 2016.

Equity and Fixed Income Securities

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

Mutual Funds

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

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

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

2) Investments (Continued)

The following tables set forth by level, within the fair value hierarchy, the Association's investment assets at fair value as of June 30, 2017 and 2016. Classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Fixed income securities:				
Government sponsored enterprise securities	\$ 301,180	\$ -	\$ -	\$ 301,180
U.S. treasury notes	189,272	-	-	189,272
Corporate bonds	118,184	-	-	118,184
Total fixed income securities	608,636	-	-	608,636
Equity securities				
Consumer goods industry	186,787	-	-	186,787
Industrial goods industry	113,317	-	-	113,317
Services industry	119,484	-	-	119,484
Technology industry	214,979	-	-	214,979
Other	485,513	-	-	485,513
Total equity securities	1,120,080	-	-	1,120,080
Mutual funds				
Growth funds	180,571	-	-	180,571
Other funds	165,019	-	-	165,019
Total mutual funds	345,590	-	-	345,590
Total assets at fair value	\$ 2,074,306	\$ -	\$ -	\$ 2,074,306

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

2) Investments (Continued)

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Fixed income securities:				
Government sponsored enterprise securities	\$ 390,903	\$ -	\$ -	\$ 390,903
U.S. treasury notes	226,674	-	-	226,674
Corporate bonds	150,004	-	-	150,004
Total fixed income securities	767,581	-	-	767,581
Equity securities				
Consumer goods industry	239,091	-	-	239,091
Industrial goods industry	137,182	-	-	137,182
Services industry	178,159	-	-	178,159
Technology industry	323,018	-	-	323,018
Other	498,459	-	-	498,459
Total equity securities	1,375,909	-	-	1,375,909
Mutual funds				
Growth funds	157,720	-	-	157,720
Income funds	75,824	-	-	75,824
Other funds	99,221	-	-	99,221
Total mutual funds	332,765	-	-	332,765
Total assets at fair value	\$ 2,476,255	\$ -	\$ -	\$ 2,476,255

Fixed income securities mature as follows:

	2017	2016
Within three years	\$ 263,637	\$ 290,851
Three to ten years	344,999	476,730
	\$ 608,636	\$ 767,581

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

2) Investments (Continued)

Net investment income consisted of:

	2017	2016
Interest and dividends	\$ 46,433	\$ 54,450
Net realized and unrealized gains (losses)	188,567	(18,955)
Investment management fees	(29,446)	(31,649)
	<u>\$ 205,554</u>	<u>\$ 3,846</u>

Debt securities and a money market account with a total value of \$611,642 and \$774,295 at June 30, 2017 and 2016, respectively, are pledged to secure the bank line of credit described in Note 8.

3) Income Taxes

The Internal Revenue Service has determined that the MACPA is exempt from federal income tax under Section 501(c)(6) and that the Foundation is exempt from federal income taxes under Section 501(c)(3). The income of BLI, Inc. is subject to federal and state income taxes. The provisions for income taxes consist of a deferred tax benefit. The deferred tax asset is provided for net operating loss carryforwards that are available to offset future federal income taxes.

As of June 30, 2017, BLI, Inc. had net operating loss carryforwards in the amount of \$461,802. If not used, the carryforwards will expire in years 2025 through 2033.

4) Lease Commitments

During 2014, the Association amended their lease agreement for office space in Dulaney Center in Towson, Maryland. The lease is payable in monthly installments of \$14,693 with a 2.75% annual increase through December 2024. As a result of the amendment, the Association was provided rent abatement for the first six months of the lease. During the year ended June 30, 2017, the Association extended their lease agreement for office and classroom space in Columbia, Maryland. The lease is payable in monthly installments of \$3,153 through November 30, 2017.

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

4) Lease Commitments (Continued)

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

<u>Years ending June 30,</u>	<u>Amount</u>
2018	\$ 205,756
2019	195,215
2020	200,583
2021	206,099
2022	211,767
Thereafter	<u>555,253</u>
Total future minimum lease payments	<u>\$ 1,574,673</u>

The lease agreements also require payments based upon the landlords' costs of insurance, real estate taxes, and operating expenses. Rent expenses, including executory costs, totaled \$233,296 and \$233,894 for the years ended June 30, 2017 and 2016, respectively.

Due to annual escalation clauses and rent abatement, rent expense is calculated under the straight-line method in accordance with generally accepted accounting principles. Deferred rent in the amount of \$119,018 and \$111,938 has been recorded to reflect the difference between rent calculated under the straight-line method and the amount of rent actually due for the years ended June 30, 2017 and 2016, respectively.

5) Retirement Plan

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

The plan is funded in the following ways:

- Safe-harbor non-elective contributions made by the Association equal to 3% of participant's compensation.
- Profit sharing contributions made by the Association to all eligible participants at a rate determined by the Board of Directors. Profit sharing contribution rates for the years ended June 30, 2017 and 2016 were 3% and 1% of annual compensation, respectively.
- Discretionary participant contributions made by individual employees.
- The Association pays a match of 25 cents on every dollar of employee contributions. Employee contributions of up to 4% of annual compensation are eligible for a match for a maximum Association payment of 1% of an employee's annual compensation.

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

5) Retirement Plan (Continued)

Retirement plan expenses totaled \$118,520 and \$128,458 for the years ended June 30, 2017 and 2016, respectively. These amounts were accrued and included in accounts payable and accrued expense on the statements of financial position as of June 30, 2017 and 2016.

6) Educational Foundation

The Foundation is a public charitable and educational organization as described under Section 501(c)(3) of the Internal Revenue Code. The Foundation's assets are to be expended for its exempt charitable and educational purposes which include providing scholarships to accounting students based on need, merit and the desire to pursue a career as a Certified Public Accountant. The MACPA made no contributions to the Foundation for the years ended June 30, 2017 and 2016. The Foundation received permanently restricted donations during the years ended June 30, 2017 and 2016 in the amount of \$5,000 and \$-0-, respectively.

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

	2017	2016
Cash and investments	\$ 368,304	\$ 339,823
Contribution receivable	4,827	50
Total assets	<u>\$ 373,131</u>	<u>\$ 339,873</u>
Unrestricted net assets	\$ 342,123	\$ 314,873
Temporarily restricted net assets	1,008	-
Permanently restricted net assets	30,000	25,000
Total net assets	<u>\$ 373,131</u>	<u>\$ 339,873</u>
Total revenue and gains	\$ 43,758	\$ 9,148
Total expenses and losses	10,500	5,000
Increase in unrestricted net assets	27,250	4,961
Increase (decrease) in temporarily restricted net assets	1,008	(813)
Increase in permanently restricted net assets	5,000	-
Total increase in net assets	<u>\$ 33,258</u>	<u>\$ 4,148</u>

7) Endowment Fund

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

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

7) Endowment Fund (Continued)

Interpretation of Relevant Law

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

Return Objectives and Risk Parameters

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Endowment net asset composition as of June 30, 2017 and 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2017</u>				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 1,008</u>	<u>\$ 30,000</u>	<u>\$ 31,008</u>
<u>2016</u>				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>

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

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

7) Endowment Fund (Continued)

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ -	\$ 813	\$ 25,000	\$ 25,813
Investment income	-	241	-	241
Expenditures	-	(1,054)	-	(1,054)
Endowment net assets, June 30, 2016	-	-	25,000	25,000
Contributions	-	-	5,000	5,000
Investment income	-	3,055	-	3,055
Expenditures	-	(2,047)	-	(2,047)
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 1,008</u>	<u>\$ 30,000</u>	<u>\$ 31,008</u>

8) Line of Credit

The Association may borrow up to \$200,000 under terms of a revolving line of credit with BB&T Bank. The line bears interest at the bank's prime rate, and is secured by an investment account described in Note 2. The outstanding balance was \$120,000 and \$-0- as of June 30, 2017 and 2016, respectively.

9) Note Payable

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

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

Years ending June 30,	Amount
2018	\$ 43,256
2019	41,192
2020	9,747
	<u>\$ 94,195</u>

10) Subsequent Events

Management has evaluated events and transactions subsequent to the consolidated statement of financial position date for potential recognition or disclosure through September 21, 2017, the date the consolidated financial statements were available to be issued. There were no events that required recognition or disclosure in the consolidated financial statements.