

**Minnesota Society of
Certified Public Accountants**

Consolidated Financial Statements

March 31, 2019 and 2018

**Minnesota Society of Certified Public Accountants
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Independent Auditor's Report

To the Board of Directors
Minnesota Society of Certified Public Accountants
Minneapolis, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Minnesota Society of Certified Public Accountants (a Nonprofit Organization), which comprise the consolidated statements of financial position as of March 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to 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 Society'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 Society's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Minnesota Society of Certified Public Accountants, as of March 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements as identified in the Table of Contents are presented for the purpose of additional analysis and are 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, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matters

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Society adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities (Topic 958). Our opinion is not modified with respect to this matter.

BergankDV, Ltd.

St. Cloud, Minnesota
July 11, 2019

CONSOLIDATED FINANCIAL STATEMENTS

Minnesota Society of Certified Public Accountants
Consolidated Statements of Financial Position
As of March 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 2,906,350	\$ 2,924,285
Investments - operating reserve	1,889,779	1,859,412
Investments - intermediate reserve	1,080,132	1,021,450
Investments - long-term reserve	1,258,189	1,236,767
Accounts receivable and contributions receivable, net	52,424	42,169
Prepaid expenses	159,071	246,039
Property and equipment, net	583,941	325,300
Total assets	\$ 7,929,886	\$ 7,655,422
Liabilities		
Accounts payable	\$ 135,294	\$ 106,292
Accrued compensation and related taxes	287,306	285,603
Accrued pension contribution	142,407	134,174
Deferred rent	117,931	144,999
Deferred revenues		
Membership dues	1,904,849	1,892,921
Future activities	241,777	242,861
Total liabilities	2,829,564	2,806,850
Net Assets		
Without donor restrictions		
Board designated - capital expenditures	-	333,999
Board designated - long-term reserve	1,258,189	1,236,767
Undesignated	3,823,344	3,277,806
Total without donor restrictions	5,081,533	4,848,572
With donor restrictions	18,789	-
Total net assets	5,100,322	4,848,572
Total liabilities and net assets	\$ 7,929,886	\$ 7,655,422

See notes to consolidated financial statements.

Minnesota Society of Certified Public Accountants
Consolidated Statement of Activities
Year Ended March 31, 2019

	Year Ended March 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Gains			
Contributions	\$ 420	\$ 32,000	\$ 32,420
Education programs	4,078,456	-	4,078,456
Membership dues	2,344,588	-	2,344,588
Membership programs	120,476	-	120,476
Publication sales and advertising	146,303	-	146,303
Professional standards	222,615	-	222,615
Investment income, net	139,053	-	139,053
Other	122,842	-	122,842
Net assets released from restrictions through satisfaction of donor restrictions	13,211	(13,211)	-
Total revenue and gains	7,187,964	18,789	7,206,753
Expenses			
Program expenses			
Education programs	3,741,500	-	3,741,500
Membership services	985,980	-	985,980
Communications	485,469	-	485,469
Government relations	309,303	-	309,303
Professional standards	209,479	-	209,479
Total program expenses	5,731,731	-	5,731,731
Supporting services			
Management and general	1,223,272	-	1,223,272
Total expenses	6,955,003	-	6,955,003
Change in net assets	232,961	18,789	251,750
Net Assets			
Beginning of year	4,848,572	-	4,848,572
End of year	\$ 5,081,533	\$ 18,789	\$ 5,100,322

Minnesota Society of Certified Public Accountants
Consolidated Statement of Activities
Year Ended March 31, 2018

	Year Ended March 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Gains			
Contributions	\$ -	\$ -	\$ -
Education programs	4,137,349	-	4,137,349
Membership dues	2,318,676	-	2,318,676
Membership programs	113,170	-	113,170
Publication sales and advertising	140,737	-	140,737
Professional standards	183,795	-	183,795
Investment income, net	141,459	-	141,459
Other	76,965	-	76,965
Net assets released from restrictions through satisfaction of donor restrictions	-	-	-
Total revenue and gains	7,112,151	-	7,112,151
Expenses			
Program expenses			
Education programs	3,668,905	-	3,668,905
Membership services	1,042,514	-	1,042,514
Communications	512,344	-	512,344
Government relations	262,937	-	262,937
Professional standards	221,698	-	221,698
Total program expenses	5,708,398	-	5,708,398
Supporting services			
Management and general	1,049,444	-	1,049,444
Total expenses	6,757,842	-	6,757,842
Change in net assets	354,309	-	354,309
Net Assets			
Beginning of year	4,494,263	-	4,494,263
End of year	\$ 4,848,572	\$ -	\$ 4,848,572

Minnesota Society of Certified Public Accountants
Consolidated Statements of Functional Expenses
Years Ended March 31, 2019 and 2018

Year Ended March 31, 2019

	Program Services					Supporting Services		March 31, 2018 Total	
	Education Programs	Membership Services	Communications	Government Relations	Professional Standards	Total	Management and General		Total
Expenses									
Personnel	\$ 787,658	\$ 521,821	\$ 244,819	\$ 182,929	\$ 80,387	\$ 1,817,614	\$ 930,477	\$ 2,748,091	\$ 2,737,608
Continuing professional education	2,617,417	-	-	-	-	2,617,417	-	2,617,417	2,527,127
Events and programs	11,890	174,327	-	96,655	110,642	393,514	-	393,514	351,533
Publications and promotions	-	53,717	166,213	-	-	219,930	-	219,930	237,798
Scholarships and contributions	19,700	28,500	-	-	-	48,200	-	48,200	45,544
Rent	74,893	46,782	21,192	10,217	6,814	159,898	55,753	215,651	223,189
Office	82,971	52,112	44,946	15,950	6,855	202,834	56,971	259,805	251,046
General operating	106,996	93,121	1,232	111	2,498	203,958	161,518	365,476	308,177
Depreciation and amortization	39,975	15,600	7,067	3,441	2,283	68,366	18,553	86,919	75,820
Total expenses	\$ 3,741,500	\$ 985,980	\$ 485,469	\$ 309,303	\$ 209,479	\$ 5,731,731	\$ 1,223,272	\$ 6,955,003	\$ 6,757,842

Year Ended March 31, 2018

	Program Services					Supporting Services		Total
	Education Programs	Membership Services	Communications	Government Relations	Professional Standards	Total	Management and General	
Expenses								
Personnel	\$ 824,326	\$ 561,383	\$ 261,587	\$ 170,591	\$ 101,631	\$ 1,919,518	\$ 818,090	\$ 2,737,608
Continuing professional education	2,527,127	-	-	-	-	2,527,127	-	2,527,127
Events and programs	-	186,131	-	66,914	98,488	351,533	-	351,533
Publications and promotions	-	61,784	176,014	-	-	237,798	-	237,798
Scholarships and contributions	20,544	25,000	-	-	-	45,544	-	45,544
Rent	80,047	52,321	22,616	9,765	8,430	173,179	50,010	223,189
Office	82,935	54,724	44,255	12,851	8,514	203,279	47,767	251,046
General operating	99,297	86,138	1,356	-	2,208	188,999	119,178	308,177
Depreciation and amortization	34,629	15,033	6,516	2,816	2,427	61,421	14,399	75,820
Total expenses	\$ 3,668,905	\$ 1,042,514	\$ 512,344	\$ 262,937	\$ 221,698	\$ 5,708,398	\$ 1,049,444	\$ 6,757,842

Minnesota Society of Certified Public Accountants
Consolidated Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	2019	2018
Cash Flows - Operating Activities		
Change in net assets	\$ 251,750	\$ 354,309
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation and amortization	86,919	75,820
Net unrealized (gain) loss on investments	24,040	(22,168)
Change in operating assets and liabilities		
Accounts receivable and contributions receivable	(10,255)	(7,157)
Prepaid expenses	86,968	20,839
Accounts payable	29,002	28,199
Accrued expenses	9,936	51,740
Deferred rent	(27,068)	(21,334)
Deferred revenues	10,844	(9,832)
Total adjustments	210,386	116,107
Net cash flows - operating activities	462,136	470,416
 Cash Flows - Investing Activities		
Purchases of investments	(3,282,413)	(3,694,016)
Sale or maturity of investments	3,147,902	3,584,431
Purchases of property and equipment	(345,560)	(139,582)
Net cash flows - investing activities	(480,071)	(249,167)
 Net change in cash and cash equivalents	(17,935)	221,249
 Cash and Cash Equivalents		
Beginning of year	2,924,285	2,703,036
End of year	\$ 2,906,350	\$ 2,924,285
 Supplementary Disclosure of Cash Flow Information		
Cash paid for income taxes	\$ 4,532	\$ 1,738

See notes to consolidated financial statements.

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Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Minnesota Society of Certified Public Accountants

The Minnesota Society of Certified Public Accountants (the Society) was incorporated in 1904 under the laws of the State of Minnesota. The mission of the Society is to help members succeed professionally while being mindful of serving the public interest.

The Society's operations include educational programs, membership services, communications, government relations, and professional standards.

The Society provides educational programs for the benefit of both certified public accountants (CPAs) and the general public. These programs meet continuing professional education (CPE) requirements established by the State of Minnesota in order to hold an active CPA certificate.

Education programs include live seminars, conferences, and webinars, sales of self-study products, and custom education programs.

Membership services reach, assist, and involve all segments of the membership, from new CPAs to those in public accounting, industry, government, and education. Membership services provide professional resources, products, and services to the Society members.

Communications programs use a variety of vehicles to advocate for the profession and provide information about the profession to the Society membership and the general public. The Society's primary publications are the Footnote, which is published nine times per year, and numerous E-newsletters.

Government relations activities foster working relationships with regulatory bodies, legislators, and the public, providing advocacy for the certified public accounting profession in Minnesota and for state tax policy issues.

Professional standards activities provide administration of peer reviews for CPA firms and professional ethics oversight of members to maintain the highest possible self-regulating quality standards.

MNCPA Foundation

MNCPA Foundation (the Foundation) was incorporated in March 2018 as a not-for-profit corporation with the Society as its sole member. The Foundation's mission is to develop educational and charitable programs to support accounting careers and diversity and inclusion within the accounting profession.

The Foundation's primary program is a diversity and inclusion program for high school students from minority populations, to provide exposure to the accounting profession as well as mentoring and support for enrollment in higher education.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation

The consolidated financial statements include the combined operations of the Society and all related entities in which the Society has an economic interest and control. Those related entities include five regional chapters of the Society (two of which are dormant as of March 31, 2019 and 2018) and the Foundation. Interrelated receivables, payables, revenues, and expenses have been eliminated.

A separate organization, the Minnesota Society of Certified Public Accountants Public Affairs Committee (PAC) is not included in these consolidated financial statements because the Society does not have control with respect to the PAC.

Unclassified Statement of Financial Position

A common practice in the industry is the presentation of financial position using an unclassified statement of financial position. The Society has opted to present an unclassified consolidated statement of financial position in accordance with industry practice.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less, excluding investments held as part of reserves. Cash and cash equivalents are stated at cost.

Investments

Investments (other than cash and cash equivalents in investments and certificates of deposit) are recorded at fair value in the consolidated statements of financial position using quoted market prices. Net realized and unrealized gains and losses, as well as investment revenue from dividends and interest, are reflected in the consolidated statements of activities as changes in unrestricted net assets. Realized gains and losses are determined using the specific identification method.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are unsecured and are substantially all from Society members.

The Society's policy is to present accounts receivable in the consolidated statements of financial position net of estimated uncollectible amounts. The estimated uncollectible amount was \$6,000 at both March 31, 2019 and 2018, based on management's judgment about the likelihood of collection of the individual receivables. Receivables are considered past due after 60 days and are written off after all collection efforts have been exhausted.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Contributions receivable are unsecured and are from organizations actively involved in the Foundation’s diversity and inclusion initiative. Contributions were considered to be fully collectible at March 31, 2019. All amounts are expected to be collected within the next year.

Property and Equipment

Property and equipment are recorded at cost and are depreciated or amortized using the straight-line method based on estimated useful lives as follows:

Leasehold improvements	Lesser of estimated useful life or remaining term of related lease
Office furniture and equipment	Three to ten years
Website redesign	Five years

The Society follows the practice of capitalizing all expenditures for property and equipment in excess of \$2,000. Software development costs are capitalized or expensed in accordance with guidance related to internal-use software. Repairs and maintenance are charged to expense as incurred. Renewals and improvements which extend the useful life of assets are capitalized and depreciated over future periods.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – resources over which the Board of Directors (the Board) has discretionary control. Designated amounts represent revenue which the Board has set aside for a particular purpose.

Net assets with donor restrictions – resources subject to donor-imposed restrictions, which will be satisfied by the actions of the Foundation or passage of time. Contributions received are recorded as an increase in support with donor restrictions or without donor restrictions, depending on the existence and nature of any donor restrictions. When a donor restriction expires, restricted net assets are reclassified to without donor restricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Revenue Recognition

Continuing professional education course fees and meeting and conference admission charges are recognized as revenue in the period in which the event occurs. Membership dues are recognized as revenue ratably over the annual membership period. Advertising revenue is recognized when the ad is published.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services

Contributions of services are recognized for services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would ordinarily be purchased if not provided by donation. Contributed services, including promises to give, that do not meet these criteria are not recognized. The Society provides support to the Foundation through the use of Society staff and office resources for program and governance activities. The Society's support was valued at \$31,716 for the year ended 2019 and was immaterial for the year ended 2018. The Society receives a substantial amount of services donated by volunteers. The value of this donated time has not been reflected in the consolidated financial statements since it does not meet the standards for recording.

Fair Value Measurements

Under U.S. GAAP, 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. The accounting standards establish a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 – Observable inputs such as quoted prices in active markets for identical assets;

Level 2 – Inputs other than quoted prices in active markets that are observable either directly or indirectly; and,

Level 3 – Unobservable inputs where there is little or no market data which require the reporting entity to develop its own assumption.

The Society uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The Society holds certain assets that are required to be measured at fair value on a recurring basis as displayed in Note 4.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, primarily on time expended by employees.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Society's policy is to expense advertising costs as they are incurred, except for event related advertising, which is expensed when the event takes place. Advertising capitalized at March 31, 2019 and 2018, was \$9,624 and \$24,497, respectively, included in the statements of financial position as prepaid expenses. During 2019 and 2018, the Society incurred advertising costs totaling \$275,337 and \$267,334, respectively. These expenses were incurred for marketing of continuing professional education programs, and for promotion of the CPA profession.

Tax Status

The Society is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code. The Society also qualifies as a tax-exempt organization under applicable statutes of the State of Minnesota.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation also qualifies as a tax-exempt organization under applicable statutes of the State of Minnesota.

The Society generates unrelated business income from its monthly publication and other advertising and from subrental of training space within its facility. Income tax expense was \$5,818 and \$3,845 for 2019 and 2018, respectively.

The Society reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Society recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities. The Society has identified no significant income tax uncertainties.

Recently Adopted Accounting Pronouncement

Presentation of Financial Statements of Not-For-Profit Entities

The Society adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities (Topic 958), in its 2019 consolidated financial statements. This guidance reduces the net asset classification from three to two: net assets with and without donor restrictions; expands disclosures about liquidity; and requires expenses to be reported by their function and natural classification. The ASU has been adopted retrospectively except for liquidity which can be reported in the current period only. The adoption of this guidance did not have a material impact on the Society's consolidated financial statements.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard will affect entities that enter into contracts with customers and provides a five step process for determining when revenue should be recognized to match the transfer of goods or services. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Society is currently evaluating the impact this standard will have on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require all leases to be recorded as assets and liabilities on the statement of financial position. This update would require capitalization of the "right to use" an asset and recognition of an obligation for future lease payments for most leases currently classified as operating leases. Other leases currently classified as capital leases will be referred to as financing leases and will continue to be recorded as assets and liabilities in a similar manner. This update is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Society is currently evaluating the impact this standard will have on its consolidated financial statements.

Clarifying Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued ASU No. 2018-08, Not-For-Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This update aims to standardize how grants and other contracts are classified as either an exchange transaction or a contribution. Classifying grants as either a contribution or exchange transaction is the first step in implementing revenue recognition. For most recipients, this update is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Society is currently evaluating the impact this standard will have on its consolidated financial statements.

Subsequent Events

The Society has evaluated subsequent events through July 11, 2019, the date on which the consolidated financial statements were available to be issued.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 2 – LIQUIDITY

The Society’s primary sources of support are program fees and member dues. The Society anticipates collecting sufficient revenue through program fees to cover the costs of its education and professional standards programs. The majority of its remaining expenses are funded by dues revenue. 78% of dues billed for the operating year beginning April 1, 2019, had been collected as of March 31, 2019, and are reported in the accompanying financial statements as “deferred revenue-membership dues”. The Foundation funds the direct costs of its programs through donor contributions, and as explained in Note 1, receives contributed staff and office expenses from the Society. The Foundation uses the amount of contributions and pledges received to adjust the scale of its program activities each year. Chapter expenses cannot exceed the amount of cash available in chapter bank accounts.

The table below presents financial assets available for general expenditures within one year at March 31, 2019.

Cash and cash equivalents	\$ 2,906,350
Accounts receivable	<u>52,424</u>
Total financial assets available at year end	<u>\$ 2,958,774</u>

In addition, the Society has available an operating reserve as disclosed in Note 3, with a value of \$1,889,779 at March 31, 2019. All investments held in the operating reserve have maturity dates within the next 12 months.

NOTE 3 – INVESTMENTS

Investments are classified in the consolidated statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
Operating reserve		
Cash and cash equivalents, at cost	\$ 21,779	\$ 17,412
Certificates of deposit, at cost	<u>1,868,000</u>	<u>1,842,000</u>
Total operating reserve	<u>\$ 1,889,779</u>	<u>\$ 1,859,412</u>
Intermediate reserve		
Cash and cash equivalents, at cost	\$ 22,971	\$ 23,438
Equity mutual funds	618,249	570,220
Bonds	<u>438,912</u>	<u>427,792</u>
Total intermediate reserves	<u>\$ 1,080,132</u>	<u>\$ 1,021,450</u>

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

	2019	2018
Long-term reserve		
Cash and cash equivalents, at cost	\$ 7,866	\$ 8,424
Equity mutual funds	541,633	493,221
Equity exchange traded fund	421,555	394,553
Fixed income mutual funds	287,135	285,475
Balanced mutual funds	-	55,094
Total long-term reserve	\$ 1,258,189	\$ 1,236,767
	2019	2018
Cash and cash equivalents in investments, at cost	\$ 52,616	\$ 49,274
Certificates of deposit, at cost	1,868,000	1,842,000
Investments, at fair value	2,307,484	2,226,355
Total investments	\$ 4,228,100	\$ 4,117,629

NOTE 4 – FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the valuation techniques during 2019 and 2018.

Mutual funds and exchange traded funds – The fair value of mutual funds and exchange traded funds is based on quoted market prices.

Bonds – The fair value of bonds were obtained from independent quotation services whose appraisals are based on closing prices, bid-ask quotations, or other factors.

Fair values of assets measured on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total
March 31, 2019				
Mutual funds and exchange traded funds	\$ 1,868,572	\$ -	\$ -	\$ 1,868,572
Bonds	438,912	-	-	438,912
Total	\$ 2,307,484	\$ -	\$ -	\$ 2,307,484

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
March 31, 2018				
Mutual funds and exchange traded funds	\$ 1,798,563	\$ -	\$ -	\$ 1,798,563
Bonds	<u>427,792</u>	<u>-</u>	<u>-</u>	<u>427,792</u>
Total	<u>\$ 2,226,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,226,355</u>

NOTE 5 – PROPERTY AND EQUIPMENT

	<u>2019</u>	<u>2018</u>
Office equipment	\$ 432,208	\$ 419,095
Furniture and fixtures	241,375	241,375
Leasehold improvements	396,642	396,642
Website redesign	69,139	173,414
Software development in progress	<u>279,532</u>	<u>56,706</u>
	1,418,896	1,287,232
Less accumulated depreciation	<u>(834,955)</u>	<u>(961,932)</u>
Property and equipment, net	<u>\$ 583,941</u>	<u>\$ 325,300</u>

Depreciation and amortization expense for 2019 and 2018 totaled \$86,919 and \$75,820, respectively.

NOTE 6 – BOARD DESIGNATED NET ASSETS

Capital Expenditures

The Society's Board designated certain portions of its investment portfolios as displayed in Note 3 for future major capital expenditures.

Long-Term Reserves

The Society's Board has designated certain portions of its investment portfolios as displayed in Note 3 for long-term strategic initiatives of the Society.

NOTE 7 – DONOR RESTRICTED NET ASSETS

	<u>2019</u>	<u>2018</u>
Donor restricted for purpose: MNCPA Scholars program	<u>\$ 18,789</u>	<u>\$ -</u>

Net assets released from restrictions for the MNCPA Scholars program was \$13,211 and \$0 for 2019 and 2018, respectively.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 8 – RETIREMENT PLAN

The Society has a defined contribution retirement plan covering all employees who meet certain minimum eligibility requirements.

Eligible employees are allowed to make deferral contributions. In addition, the plan allows for discretionary employer contributions, both matching and profit-sharing. For 2019 and 2018 the Society made total contributions of \$201,404 and \$191,268, respectively. For 2019, the contribution consisted of matching contributions of \$59,516, calculated as 50% of employee contributions up to 6% of eligible compensation, and profit-sharing contributions of \$141,888, based on 7% of eligible compensation. For 2018, the contribution consisted of matching contributions of \$57,228, calculated as 50% of employee contributions up to 6% of eligible compensation, and profit-sharing contributions of \$134,040, based on 7% of eligible compensation.

NOTE 9 – LEASE COMMITMENT

The Society leases its office and classroom space in Bloomington, Minnesota. The lease expires in March 2022 and requires minimum monthly payments of \$17,146, with base rent increases occurring every year. In addition to base rent, the Society is required to pay its pro-rata share of operating expenses of the building. The lease grants one five-year option to extend the lease term.

Minimum monthly payments under the lease commitments are scheduled as follows:

2020	\$ 205,751
2021	211,895
2022	<u>218,311</u>
Total	<u>\$ 635,957</u>

Rent expense for 2019 and 2018 totaled \$356,304 and \$354,791, respectively, including rent allocated directly to education programs in the amount of \$140,653 and \$131,603.

NOTE 10 – CONTRACT COMMITMENT

The Society is implementing a new association management system (AMS) that will serve as its primary customer database. The software requires configuration and customization to meet the Society's business needs. The Society has an agreement with a vendor to provide services related to the implementation that include writing software customizations, integrating the AMS with other applications as well as the Society's website, converting data, managing the project, and providing training and go-live support. The outstanding financial commitment to the vendor under the contract was \$136,146 at March 31, 2019. Final implementation of the AMS may require additional expense beyond the vendor contract. The Society expects to place the new AMS in service during the year ended March 31, 2020.

Minnesota Society of Certified Public Accountants
Notes to Consolidated Financial Statements

NOTE 11 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash, short-term investments, marketable securities, and other investments. Substantially all the Society's operating reserves are placed in certificates of deposits that do not exceed federally insured limits. The Society's cash and cash equivalents used in operations is placed with a high-quality financial institution where balances periodically exceed federal insured limits. Other cash and cash equivalents are placed with various financial institutions in amounts that do not exceed federally insured limits.

NOTE 12 – RECLASSIFICATIONS

Certain reclassifications have been made to the prior year amounts to conform with current year classifications.

SUPPLEMENTARY INFORMATION

Minnesota Society of Certified Public Accountants
Consolidating Statement of Financial Position
As of March 31, 2019

	Society	Foundation	Chapters	Total
Assets				
Cash and cash equivalents	\$ 2,841,246	\$ 18,289	\$ 46,815	\$ 2,906,350
Investments - operating reserve	1,889,779	-	-	1,889,779
Investments - intermediate reserve	1,080,132	-	-	1,080,132
Investments - long-term reserve	1,258,189	-	-	1,258,189
Accounts receivable and contributions receivable, net	50,424	2,000	-	52,424
Prepaid expenses	159,071	-	-	159,071
Property and equipment, net	583,941	-	-	583,941
Total assets	<u>\$ 7,862,782</u>	<u>\$ 20,289</u>	<u>\$ 46,815</u>	<u>\$ 7,929,886</u>
Liabilities				
Accounts payable	131,794	\$ 1,500	\$ 2,000	\$ 135,294
Accrued compensation and related taxes	287,306	-	-	287,306
Accrued pension contribution	142,407	-	-	142,407
Deferred rent	117,931	-	-	117,931
Deferred revenue	-	-	-	-
Membership dues	1,904,849	-	-	1,904,849
Future activities	241,777	-	-	241,777
Total liabilities	<u>2,826,064</u>	<u>1,500</u>	<u>2,000</u>	<u>2,829,564</u>
Net Assets				
Without donor restrictions				
Board designated - capital expenditures	-	-	-	-
Board designated - long-term reserve	1,258,189	-	-	1,258,189
Undesignated	3,778,529	-	44,815	3,823,344
With donor restrictions	-	18,789	-	18,789
Total net assets	<u>5,036,718</u>	<u>-</u>	<u>44,815</u>	<u>5,100,322</u>
Total liabilities and net assets	<u>\$ 7,862,782</u>	<u>\$ 20,289</u>	<u>\$ 46,815</u>	<u>\$ 7,929,886</u>

Minnesota Society of Certified Public Accountants
Consolidating Statement of Financial Position
As of March 31, 2018

	Society	Chapters	Total
Assets			
Cash and cash equivalents	\$ 2,873,794	\$ 50,491	\$ 2,924,285
Investments - operating reserve	1,859,412	-	1,859,412
Investments - intermediate reserve	1,021,450	-	1,021,450
Investments - long-term reserve	1,236,767	-	1,236,767
Accounts receivable and contributions receivable, net	42,169	-	42,169
Prepaid expenses	246,039	-	246,039
Property and equipment, net	325,300	-	325,300
Total assets	\$ 7,604,931	\$ 50,491	\$ 7,655,422
 Liabilities			
Accounts payable	\$ 104,292	\$ 2,000	\$ 106,292
Accrued compensation and related taxes	285,603	-	285,603
Accrued pension contribution	134,174	-	134,174
Deferred rent	144,999	-	144,999
Deferred revenue			
Membership dues	1,892,921	-	1,892,921
Future activities	242,861	-	242,861
Total liabilities	2,804,850	2,000	2,806,850
 Net Assets			
Without donor restrictions			
Board designated - capital expenditures	333,999	-	333,999
Board designated - long-term reserve	1,236,767	-	1,236,767
Undesignated	3,229,315	48,491	3,277,806
Total net assets	4,800,081	48,491	4,848,572
Total liabilities and net assets	\$ 7,604,931	\$ 50,491	\$ 7,655,422

Minnesota Society of Certified Public Accountants
Consolidating Statement of Activities
Year Ended March 31, 2019

	Society	Foundation		Chapters	Eliminations	Total
		Without Donor Resrictions	With Donor Resrictions			
Revenue and Gains						
Contributions	\$ -	\$ 32,136	\$ 32,000	\$ -	\$ (31,716)	\$ 32,420
Education programs	4,078,456	-	-	-	-	4,078,456
Membership dues	2,344,588	-	-	20,370	(20,370)	2,344,588
Membership programs	120,476	-	-	-	-	120,476
Publication sales and advertising	146,303	-	-	-	-	146,303
Professional standards	222,615	-	-	-	-	222,615
Investment income, net	139,032	-	-	21	-	139,053
Other	122,842	-	-	-	-	122,842
Total revenue and gains	<u>7,174,312</u>	<u>32,136</u>	<u>32,000</u>	<u>20,391</u>	<u>(52,086)</u>	<u>7,206,753</u>
Net assets released from restriction	-	13,211	(13,211)	-	-	-
	<u>7,174,312</u>	<u>45,347</u>	<u>18,789</u>	<u>20,391</u>	<u>(52,086)</u>	<u>7,206,753</u>
Expenses						
Program expenses						
Education programs	3,709,910	37,178	-	19,700	(25,288)	3,741,500
Membership services	1,003,034	-	-	3,316	(20,370)	985,980
Communications	485,469	-	-	-	-	485,469
Government relations	309,303	-	-	-	-	309,303
Professional standards	209,479	-	-	-	-	209,479
Total program expenses	<u>5,717,195</u>	<u>37,178</u>	<u>-</u>	<u>23,016</u>	<u>(45,658)</u>	<u>5,731,731</u>
Supporting services						
Management and general	1,220,480	8,169	-	1,051	(6,428)	1,223,272
Total expenses	<u>6,937,675</u>	<u>45,347</u>	<u>-</u>	<u>24,067</u>	<u>(52,086)</u>	<u>6,955,003</u>
Change in net assets	236,637	-	18,789	(3,676)	-	251,750
Net Assets						
Beginning of year	<u>4,800,081</u>	<u>-</u>	<u>-</u>	<u>48,491</u>	<u>-</u>	<u>4,848,572</u>
End of year	<u>\$ 5,036,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,815</u>	<u>\$ -</u>	<u>\$ 5,100,322</u>

Minnesota Society of Certified Public Accountants
Consolidating Statement of Activities
Year Ended March 31, 2018

	Society	Chapters	Eliminations	Total
Revenue and Gains				
Education programs	\$ 4,137,349	\$ -	\$ -	\$ 4,137,349
Membership dues	2,318,676	20,340	(20,340)	2,318,676
Membership programs	113,170	-	-	113,170
Publication sales and advertising	140,737	-	-	140,737
Professional standards	183,795	-	-	183,795
Investment income, net	141,447	12	-	141,459
Other	76,965	-	-	76,965
Total revenue and gains	<u>7,112,139</u>	<u>20,352</u>	<u>(20,340)</u>	<u>7,112,151</u>
Net assets released from restriction	-	-	-	-
	<u>7,112,139</u>	<u>20,352</u>	<u>(20,340)</u>	<u>7,112,151</u>
Expenses				
Program expenses				
Education programs	3,648,361	20,544	-	3,668,905
Membership services	1,060,663	2,191	(20,340)	1,042,514
Communications	512,344	-	-	512,344
Government relations	262,937	-	-	262,937
Professional standards	221,698	-	-	221,698
Total program expenses	<u>5,706,003</u>	<u>22,735</u>	<u>(20,340)</u>	<u>5,708,398</u>
Supporting services				
Management and general	1,048,737	707	-	1,049,444
Total expenses	<u>6,754,740</u>	<u>23,442</u>	<u>(20,340)</u>	<u>6,757,842</u>
Change in net assets	357,399	(3,090)	-	354,309
Net Assets				
Beginning of year	<u>4,442,682</u>	<u>51,581</u>	<u>-</u>	<u>4,494,263</u>
End of year	<u>\$ 4,800,081</u>	<u>\$ 48,491</u>	<u>\$ -</u>	<u>\$ 4,848,572</u>

Minnesota Society of Certified Public Accountants
Consolidating Statement of Cash Flows
Year Ended March 31, 2019

	<u>Society</u>	<u>Foundation</u>	<u>Chapters</u>	<u>Total</u>
Cash Flows - Operating Activities				
Change in net assets	\$ 236,637	\$ 18,789	\$ (3,676)	\$ 251,750
Adjustments to reconcile change in net assets to net cash flows - operating activities				
Depreciation	86,919	-	-	86,919
Net unrealized loss on investments	24,040	-	-	24,040
Change in operating assets and liabilities				
Accounts receivable	(8,255)	(2,000)	-	(10,255)
Prepaid expenses	86,968	-	-	86,968
Accounts payable	27,502	1,500	-	29,002
Accrued expenses	9,936	-	-	9,936
Deferred rent	(27,068)	-	-	(27,068)
Deferred revenues	10,844	-	-	10,844
Total adjustments	<u>210,886</u>	<u>(500)</u>	<u>-</u>	<u>210,386</u>
Net cash flows - operating activities	<u>447,523</u>	<u>18,289</u>	<u>(3,676)</u>	<u>462,136</u>
Cash Flows - Investing Activities				
Purchases of investments	(3,282,413)	-	-	(3,282,413)
Sale or maturity of investments	3,147,902	-	-	3,147,902
Purchases of property and equipment	(345,560)	-	-	(345,560)
Net cash flows - investing activities	<u>(480,071)</u>	<u>-</u>	<u>-</u>	<u>(480,071)</u>
Net change in cash and cash equivalents	(32,548)	18,289	(3,676)	(17,935)
Cash and Cash Equivalents				
Beginning of year	<u>2,873,794</u>	<u>-</u>	<u>50,491</u>	<u>2,924,285</u>
End of year	<u>\$ 2,841,246</u>	<u>\$ 18,289</u>	<u>\$ 46,815</u>	<u>\$ 2,906,350</u>

Minnesota Society of Certified Public Accountants
Consolidating Statement of Cash Flows
Year Ended March 31, 2018

	<u>Society</u>	<u>Chapters</u>	<u>Total</u>
Cash Flows - Operating Activities			
Change in net assets	\$ 357,399	\$ (3,090)	\$ 354,309
Adjustments to reconcile change in net assets to net cash flows - operating activities			
Depreciation	75,820	-	75,820
Net unrealized gain on investments	(22,168)	-	(22,168)
Change in operating assets and liabilities			
Accounts receivable	(7,157)	-	(7,157)
Prepaid expenses	20,839	-	20,839
Accounts payable	28,199	-	28,199
Accrued expenses	55,740	(4,000)	51,740
Deferred rent	(21,334)	-	(21,334)
Deferred revenues	(9,832)	-	(9,832)
Total adjustments	<u>120,107</u>	<u>(4,000)</u>	<u>116,107</u>
Net cash flows - operating activities	<u>477,506</u>	<u>(7,090)</u>	<u>470,416</u>
Cash Flows - Investing Activities			
Purchases of investments	(3,694,016)	-	(3,694,016)
Sale or maturity of investments	3,584,431	-	3,584,431
Purchases of property and equipment	(139,582)	-	(139,582)
Net cash flows - investing activities	<u>(249,167)</u>	<u>-</u>	<u>(249,167)</u>
Net change in cash and cash equivalents	228,339	(7,090)	221,249
Cash and Cash Equivalents			
Beginning of year	<u>2,645,455</u>	<u>57,581</u>	<u>2,703,036</u>
End of year	<u>\$ 2,873,794</u>	<u>\$ 50,491</u>	<u>\$ 2,924,285</u>