



**Texas Society of Certified Public  
Accountants and Affiliates**

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**Combined Financial Statements  
May 31, 2017 and 2016**

# Texas Society of Certified Public Accountants and Affiliates

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## **Independent Auditors' Report**

Board of Directors  
Texas Society of Certified Public Accountants and Affiliates

We have audited the accompanying combined financial statements of the Texas Society of Certified Public Accountants and Affiliates (nonprofit organizations), which comprise the combined statements of financial position as of May 31, 2017 and 2016, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Combined Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Texas Society of Certified Public Accountants and Affiliates as of May 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position as of May 31, 2017, and the related combining statements of activities and changes in net assets and cash flows for the year then ended are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.



A Limited Liability Partnership

Arlington, Texas  
November 16, 2017

**Texas Society of Certified Public Accountants and Affiliates**  
**Combined Statements of Financial Position**  
**May 31, 2017 and 2016**

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|   | 2017                 | 2016                 |
|---|----------------------|----------------------|
| <b>Assets</b>                               |                      |                      |
| Cash and cash equivalents                   | \$ 3,114,118         | \$ 3,057,023         |
| Investments                                 | 12,430,762           | 11,534,823           |
| Accounts receivable, net                    | 141,049              | 171,504              |
| Federal income tax receivable               | 38,501               | 56,011               |
| Deferred costs and prepaid expenses         | 199,356              | 294,731              |
| Fixed assets, net                           | 291,144              | 280,697              |
| <b>Total assets</b>                         | <b>\$ 16,214,930</b> | <b>\$ 15,394,789</b> |
| <b>Liabilities and Net Assets</b>           |                      |                      |
| <b>Liabilities:</b>                         |                      |                      |
| Accounts payable and other liabilities      | \$ 804,478           | \$ 981,152           |
| Due to local chapters                       | 546,345              | 486,775              |
| Deferred membership fees and course revenue | 3,139,655            | 2,914,251            |
| Deferred rent                               | 188,216              | 200,532              |
| Deferred tax liability                      | 168,256              | 130,684              |
| Other deferred revenue                      | 244,152              | 168,297              |
| <b>Total liabilities</b>                    | 5,091,102            | 4,881,691            |
| <b>Net assets:</b>                          |                      |                      |
| Unrestricted net assets:                    |                      |                      |
| Undesignated                                | 7,755,065            | 7,354,651            |
| Board-designated                            | 3,338,313            | 3,127,997            |
| <b>Total unrestricted net assets</b>        | 11,093,378           | 10,482,648           |
| Permanently restricted net assets           | 30,450               | 30,450               |
| <b>Total net assets</b>                     | 11,123,828           | 10,513,098           |
| <b>Total liabilities and net assets</b>     | <b>\$ 16,214,930</b> | <b>\$ 15,394,789</b> |

See notes to combined financial statements.

**Texas Society of Certified Public Accountants and Affiliates**  
**Combined Statements of Activities and Changes in Net Assets**  
**Years Ended May 31, 2017 and 2016**

|   | 2017                 | 2016                 |
|---|----------------------|----------------------|
| <b>Unrestricted revenues and other support:</b>       |                      |                      |
| Membership dues                                       | \$ 5,514,209         | \$ 5,251,616         |
| Continuing professional education                     | 2,679,445            | 2,857,147            |
| Peer review   | 994,407              | 815,944              |
| Publications  | 40,970               | 58,864               |
| Contributions   | 237,045              | 245,816              |
| Investment income (loss)                              | 1,248,323            | (93,806)             |
| Other income  | 537,429              | 572,090              |
| Insurance premium royalty                             | 100,681              | 103,159              |
|   | <b>11,352,509</b>    | <b>9,810,830</b>     |
| <b>Expenses:</b>                                      |                      |                      |
| Program:  |                      |                      |
| Membership activities                                 | 5,957,244            | 6,063,763            |
| Regulatory and legislative                            | 1,058,515            | 899,010              |
| Accounting education                                  | 258,878              | 246,487              |
| External relations                                    | 132,353              | 117,273              |
|   | <b>7,406,990</b>     | <b>7,326,533</b>     |
| Supporting:   |                      |                      |
| Administration  | 3,151,040            | 3,220,511            |
| Insurance trust expenses                              | 189,101              | 229,045              |
|   | <b>3,340,141</b>     | <b>3,449,556</b>     |
|   | <b>10,747,131</b>    | <b>10,776,089</b>    |
| <b>Increase (decrease) in net assets before taxes</b> | <b>605,378</b>       | <b>(965,259)</b>     |
| Federal income tax refund                             | 5,352                | 61,988               |
| <b>Increase (decrease) in net assets</b>              | <b>610,730</b>       | <b>(903,271)</b>     |
| <b>Net assets at beginning of year</b>                | <b>10,513,098</b>    | <b>11,416,369</b>    |
| <b>Net assets at end of year</b>                      | <b>\$ 11,123,828</b> | <b>\$ 10,513,098</b> |

See notes to combined financial statements.

**Texas Society of Certified Public Accountants and Affiliates**  
**Combined Statements of Cash Flows**  
**Years Ended May 31, 2017 and 2016**

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| <b>Cash flows from operating activities:</b>  |                     |                     |
| Increase (decrease) in net assets   | \$ 610,730          | \$ (903,271)        |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: |                     |                     |
| Depreciation  | 150,509             | 115,546             |
| Realized and unrealized (gains) losses on investments   | (976,099)           | 353,359             |
| Changes in assets and liabilities:  |                     |                     |
| Accounts receivable, net  | 30,455              | 32,968              |
| Federal income tax receivable   | 17,510              | (52,849)            |
| Deferred costs and prepaid expenses   | 95,375              | (5,232)             |
| Accounts payable and other liabilities  | (176,674)           | 82,634              |
| Due to local chapters   | 59,570              | 90,555              |
| Deferred membership fees and course revenue   | 225,404             | (28,169)            |
| Deferred rent   | (12,316)            | 11,522              |
| Deferred tax liability  | 37,572              | (21,553)            |
| Other deferred revenue  | 75,855              | (198,187)           |
| <b>Net cash provided (used) by operating activities</b>   | <b>137,891</b>      | <b>(522,677)</b>    |
| <b>Cash flows from investing activities:</b>  |                     |                     |
| Redemptions (purchases) of marketable securities, net   | 80,160              | (257,021)           |
| Additions to fixed assets   | (160,956)           | (82,873)            |
| <b>Net cash used by investing activities</b>  | <b>(80,796)</b>     | <b>(339,894)</b>    |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>57,095</b>       | <b>(862,571)</b>    |
| <b>Cash and cash equivalents at beginning of year</b>   | <b>3,057,023</b>    | <b>3,919,594</b>    |
| <b>Cash and cash equivalents at end of year</b>   | <b>\$ 3,114,118</b> | <b>\$ 3,057,023</b> |
| Supplemental cash flow information -  |                     |                     |
| Cash paid during the year for income taxes  | \$ -                | \$ 10,000           |

See notes to combined financial statements.

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### 1. Organization

The Texas Society of Certified Public Accountants (Society) was organized for the purpose of furthering the accounting profession. The work of the Society pervades all areas of the accounting profession – influencing standard setting, practice management, public service, ethics enforcement, image enhancement, continuing education and influencing regulation and legislation. The Society's voluntary membership is composed of Certified Public Accountants (CPAs) located primarily in Texas.

The Accounting Education Foundation of the Texas Society of Certified Public Accountants, Inc. (Education Foundation) was incorporated to aid, promote, develop, and advance education and research relating to the study, teaching and practice of accounting; to provide financial assistance to students; and to support the development of programs for the recruitment and education of outstanding accounting students.

The Texas Society of Certified Public Accountants CPE Foundation, Inc. (CPE Foundation) was organized for the advancement and encouragement of education and research in accounting in the following ways: through receipt of gifts, donations and grants and administering these on a charitable basis to promote education and research in accounting; through cooperation with professional nonprofit organizations in their education and research efforts; through sponsoring seminars, lectures, courses and similar activities on accounting and related subjects for members of the Society and other interested parties; and through other activities performed for the sole purpose of advancing and encouraging education and research in accounting at all levels.

The Texas Society of Certified Public Accountants Political Action Committee (CPA/PAC) was formed for the purpose of furthering the interests of the accounting profession in the state of Texas by making campaign contributions to selected state legislators and other elected state officials.

The Texas Society of Certified Public Accountants Accountancy Museum of Texas (Museum) was founded for the purpose of soliciting contributions from the membership to create a museum to provide a historical perspective on the accounting profession. The Museum is funded through contributions of cash as well as historical items.

The Texas Society of Certified Public Accountants Peer Assistance Foundation (Peer Assistance) was organized to provide assistance to members with drug and alcohol related problems and mental health related conditions. Funding for Peer Assistance is contributed by the membership of the Society and grants provided by the Texas State Board of Public Accountancy.

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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The Texas Society of Certified Public Accountants Insurance Trust (Insurance Trust) was formed to offer group life, health and other insurance products to qualified members of the Society, their eligible employees and their families at favorable group rates. The Insurance Trust does not retain the insurance risk associated with the activity.

The combined financial statements include the activities of the Society, Education Foundation, CPE Foundation, CPA/PAC, Museum, Peer Assistance and Insurance Trust (collectively, the Organization). The Organization is supported primarily by membership dues, fees for meetings and educational activities, fees for peer review assistance and public contributions from individuals, corporations and other organizations.

## **2. Summary of Significant Accounting Policies**

The accounting policies of the Organization conform to U.S. generally accepted accounting principles (GAAP). The more significant accounting policies of the Organization are described below.

### ***Combined Financial Statements***

In accordance with the provisions of FASB ASC 958-810 *Not-for-Profit Entities/Consolidations*, the financial statements of the Organization have been combined, and all inter-organization transactions and accounts have been eliminated.

The individual entities have interrelated directors/trustees and share common facilities and personnel. Various expenses, including occupancy costs and salaries, have been allocated among the Society, the CPE Foundation and the Insurance Trust based upon services rendered by common personnel and usage of common facilities. Except for the Insurance Trust, all of the entities are nonprofit organizations.

### ***Basis of Accounting***

The Organization prepares the combined financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### ***Financial Statement Presentation***

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

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time. The Organization did not have any temporarily restricted net assets as of May 31, 2017 or 2016.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

### ***Financial Instruments and Credit and Market Risk Concentrations***

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and investments in marketable securities. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. Accounts receivable are unsecured and are continually evaluated by the Organization for collectability. Allowances for potential losses are maintained, if considered necessary. Marketable securities are subject to various risks, such as interest rate, credit and overall market volatility risks.

The Organization maintains cash balances at various financial institutions located in Texas. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At May 31, 2017, the Organization's uninsured balances totaled \$1,946,223.

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### ***Cash and Cash Equivalents***

For the purposes of the combined statements of cash flows, the Organization considers cash and cash equivalents to consist of petty cash, demand deposits, commercial paper and money market accounts, all of which are considered to be highly liquid and have original maturities of three months or less. Money market accounts related to investment accounts and marketable securities are excluded from the definition of cash and cash equivalents.

### ***Investments***

Investments in marketable equity and debt securities are carried at fair value. Investment income, including unrealized gains and losses, is recognized in the appropriate net asset category, according to the existence or absence of donor-imposed restrictions.

### ***Fixed Assets***

Furniture, equipment and leasehold improvements are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Maintenance and repairs are charged to expense as incurred; major improvements greater than \$5,000 are capitalized.

The Organization capitalizes qualifying computer software costs incurred during the application development stage. For financial reporting purposes, capitalized software costs are amortized by the straight-line method over five years. The amount of costs capitalized within any period is dependent on the nature of software development activities and projects in each period.

### ***Deferred Rent***

Rent expense is recognized on a straight-line basis over the terms of the leases. Deferred rent represents rent expense recognized in excess of rental payments made.

### ***Revenue Recognition***

Membership dues are recognized as revenue over the membership period. Peer review administrative fees are recognized annually and peer review assistance fees are recognized when review engagements are completed. Revenues from professional education programs are recognized in the period the programs are held. Advertising revenues are recognized when the services are rendered. Affiliation fees, royalties and affinity program revenues are recognized in the period earned. Revenues collected in advance are deferred until earned. Deferred revenue is expected to be recognized as revenue in the following year.

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### ***Advertising Costs***

Advertising costs are expensed as incurred and totaled \$319,860 and \$351,807 for the years ended May 31, 2017 and 2016, respectively.

### ***Contributed Services***

Members of the Society donate their time to various activities of the Organization, including involvement with committees, chapters and member events. The value of this contributed time is not reflected in the combined financial statements since it does not meet the criteria under GAAP for recognition as a contribution.

### ***Use of Estimates***

The preparation of combined financial statements in conformity with GAAP requires the Organization's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Functional Allocation of Expenses***

The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

### ***Income Taxes***

The Society, Education Foundation, CPE Foundation, Museum and Peer Assistance are nonprofit organizations exempt from federal income tax under various sections of the Internal Revenue Code (Code), and as such, are subject to income taxes only on unrelated business income. The CPA/PAC is a political nonprofit organization subject to federal income taxes on its investment income. None of the entities are private foundations as defined in the Code.

The Insurance Trust is subject to federal income taxes. The provision for federal income taxes includes currently payable and deferred taxes arising from temporary differences between income reported for financial statements and income tax purposes. These temporary differences result from income and expenses being recognized on the cash basis for tax purposes (see Note 11).

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the Organization, and has concluded that as of May 31, 2017 and 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the combined financial statements.

### 3. Fair Value Measurements

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- Level 1      Inputs to the valuation methodology are quoted prices available in active markets;
- Level 2      Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable;
- Level 3      Inputs to the valuation methodology are unobservable inputs in which little or no market data exists, therefore requiring an entity to make its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies for assets and liabilities measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

At May 31, 2017 and 2016, the Organization has Level 1 and Level 2 investments which are measured at fair value on a recurring basis.

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 financial assets.

Level 2 securities consist of corporate bonds and bond funds and are priced by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value.

**Texas Society of Certified Public Accountants and Affiliates**  
**Notes to Financial Statements**

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**4. Investments**

The Organization measures its investments at fair value. Fair values of assets measured on a recurring basis as of May 31, 2017 and 2016, are as follows:

|                          | 2017                |                     |                      |
|--------------------------|---------------------|---------------------|----------------------|
|                          | Level 1             | Level 2             | Fair Value           |
| Money market funds       | \$ 95,771           | \$ -                | \$ 95,771            |
| Equity securities        | 5,887,278           | -                   | 5,887,278            |
| International securities | 2,073,525           | -                   | 2,073,525            |
| Bond funds               | -                   | 4,374,188           | 4,374,188            |
| <b>Totals</b>            | <b>\$ 8,056,574</b> | <b>\$ 4,374,188</b> | <b>\$ 12,430,762</b> |

  

|                          | 2016                |                     |                      |
|--------------------------|---------------------|---------------------|----------------------|
|                          | Level 1             | Level 2             | Fair Value           |
| Money market funds       | \$ 178,427          | \$ -                | \$ 178,427           |
| Equity securities        | 5,287,746           | -                   | 5,287,746            |
| International securities | 1,692,610           | -                   | 1,692,610            |
| Bond funds               | -                   | 4,376,040           | 4,376,040            |
| <b>Totals</b>            | <b>\$ 7,158,783</b> | <b>\$ 4,376,040</b> | <b>\$ 11,534,823</b> |

The following schedule summarizes investment income (loss) for the years ended May 31:

|   | 2017                | 2016               |
|---|---------------------|--------------------|
| Interest and dividend income                          | \$ 272,224          | \$ 259,553         |
| Realized and unrealized gains (losses) on investments | 976,099             | (353,359)          |
|   | <b>\$ 1,248,323</b> | <b>\$ (93,806)</b> |

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### 5. Fixed Assets

Fixed assets are summarized as follows at May 31:

|                                | 2017              | 2016              |
|--------------------------------|-------------------|-------------------|
| Furniture                      | \$ 219,134        | \$ 219,134        |
| Equipment and software         | 1,378,501         | 1,217,545         |
| Leasehold improvements         | 152,987           | 152,988           |
|                                | 1,750,622         | 1,589,667         |
| Less: accumulated depreciation | (1,459,478)       | (1,308,970)       |
|                                | <u>\$ 291,144</u> | <u>\$ 280,697</u> |

Depreciation expense related to the above fixed assets totaled \$150,509 and \$115,546 for the years ended May 31, 2017 and 2016, respectively.

### 6. Related Party Transactions

The Society shares office space with the Austin Chapter. The space is under a joint lease by both the Austin Chapter and the Society. Expenses are allocated to the Austin Chapter based on the square footage used by the entities and totaled \$20,692 and \$20,167 during the years ended May 31, 2017 and 2016, respectively.

The Society has a management agreement with the Austin Chapter to provide the Austin Chapter with staff leadership, necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the Austin Chapter. Under the current agreement, which commenced on June 1, 2013 and is in effect until May 31, 2018, the Austin Chapter agrees to pay the Society a fixed service fee each month to cover only the staffing functions that will be performed under this agreement. For the years ended May 31, 2017 and 2016, the fixed monthly service fee was \$13,630 and \$12,980 per month, respectively.

The Society has a management agreement with the Corpus Christi Chapter to provide the Corpus Christi Chapter with staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the Corpus Christi Chapter. Under the current agreement, which commenced on June 1, 2013 and is in effect until May 31, 2019, the Corpus Christi Chapter agrees to pay the Society a fixed service fee each month to cover only the staffing functions that will be performed under this agreement. For the years ended May 31, 2017 and 2016, the fixed monthly service fee was \$1,600 and \$1,500 per month, respectively.

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## **Notes to Financial Statements**

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The Society has a management agreement with the Permian Basin Chapter to provide the Permian Basin Chapter with staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the Permian Basin Chapter. Under the current agreement, which commenced June 1, 2013 and is in effect until May 31, 2018, the Permian Basin Chapter agreed to pay the Society a fixed service fee each month to cover only the staffing functions that will be performed under this agreement. For the years ended May 31, 2017 and 2016, the fixed monthly service fee was \$1,600 and \$1,550 per month, respectively.

The Society has a management agreement with the Southeast Texas Chapter to provide the Southeast Texas Chapter with staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the Southeast Texas Chapter. Under the current agreement, which commenced on June 1, 2013 and is in effect until May 31, 2019, the Southeast Texas Chapter agreed to pay the Society a fixed service fee each month to cover only the staffing functions that will be performed under this agreement. For the years ended May 31, 2017 and 2016, the fixed monthly service fee was \$825 and \$800 per month, respectively.

In addition to the related agreements noted above, the Society also collects and distributes dues and contributions for other local chapters.

The Organization leases space from affiliated chapter offices for the use of training facilities (see Note 7).

### **7. Leases**

The CPE Foundation maintains arrangements with the Dallas, Fort Worth and Houston Chapters for the rental of training facilities maintained by the respective chapters.

The current agreement between the CPE Foundation and the Dallas Chapter allows the CPE Foundation to use specified training facilities and obtain support services (e.g., refreshments, on-site coordination and audio-visual equipment) for educational presentations. The CPE Foundation agrees to pay fees to the Dallas Chapter according to the chapter's standardized training facility rental policy and rate sheet. The Dallas Chapter's training facility fees are based on current market prices and may be adjusted periodically by the chapter. This form of agreement is being utilized in lieu of a formal lease contract.

The training facility lease agreement between the CPE Foundation and the Fort Worth Chapter is a formal contract, which was effective on June 1, 2002 and is automatically renewed on February 28 of each year for the following contract year (June 1 - May 31). Under

## Texas Society of Certified Public Accountants and Affiliates

### Notes to Financial Statements

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the contract, the CPE Foundation is allowed to use specified facilities and obtain support services for educational presentations on the dates agreed to in a predetermined schedule for each contract year, and if available, on additional dates during the year. Fees for facility use, support services, and additional related expenses, as defined in the contract, are billable to the CPE Foundation monthly.

The training facility lease agreement between the CPE Foundation and the Houston Chapter is a formal contract that was effective on June 1, 2001 and is automatically renewed annually. The contract is similar in form and content to the Fort Worth Chapter contract; however, fees for various services differ.

The Society entered into a noncancelable lease agreement for office space located at 3305 Northland Drive, Austin, Texas. The lease expires December 31, 2018. The lease includes fixed rent escalations, which are amortized and recorded over the lease term on a straight-line basis.

The Society entered into a noncancelable lease agreement for office space located at 14651 Dallas Parkway, Suite 101, Dallas Texas. The lease expires February 28, 2023. The lease includes lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the lease term on a straight-line basis.

The Society entered into a noncancelable lease agreement for certain office-related equipment. The contract was effective September 16, 2015, and requires 39 monthly payments of \$3,466, plus additional charges for excess copies and color copies made, based upon a fixed fee per copy.

Rental expense relating to noncancelable operating lease arrangements for the years ended May 31, 2017 and 2016 totaled \$405,463 and \$381,762, respectively.

Future minimum lease payments under noncancelable operating leases are as follows for the years ending May 31:

|            |    |         |
|------------|----|---------|
| 2018       | \$ | 414,331 |
| 2019       |    | 396,873 |
| 2020       |    | 373,057 |
| 2021       |    | 377,824 |
| 2022       |    | 383,784 |
| Thereafter |    | 293,201 |

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### 8. Employee Benefit Plan

The Organization established a 401(k) plan (Plan) for its employees. Participants may elect to defer from 1% to 60% of their annual compensation under the Plan, up to the maximum amount allowed by the Code. The Organization will match participant contributions up to 4% of compensation based on years of service. Additionally, the Organization makes an annual nonelective employer contribution in an amount equal to 6% of the annual compensation of all eligible participants. Participants are fully vested in their contributions; they become vested in the Organization's matching and nonelective employer contributions at 20% per year beginning with the first year of credited service and become fully vested in these contributions at the end of the fifth year of credited service.

The nonelective employer contribution expense totaled \$232,581 and \$231,458 for the years ended May 31, 2017 and 2016, respectively. The Organization's matching contribution expense totaled \$137,048 and \$134,453 for the years ended May 31, 2017 and 2016, respectively.

### 9. Net Assets

Net assets and changes in net assets are as follows:

|                          | Balance<br>May 31, 2015 | Increase<br>(Decrease) | Balance<br>May 31, 2016 | Increase<br>(Decrease) | Balance<br>May 31, 2017 |
|--------------------------|-------------------------|------------------------|-------------------------|------------------------|-------------------------|
| Undesignated:            |                         |                        |                         |                        |                         |
| Society                  | \$ 4,023,674            | \$ (489,249)           | \$ 3,534,425            | \$ 521,965             | \$ 4,056,390            |
| Education Foundation     | 75,000                  | -                      | 75,000                  | -                      | 75,000                  |
| CPE Foundation           | 1,649,354               | (227,773)              | 1,421,581               | (112,435)              | 1,309,146               |
| CPA/PAC                  | 683,474                 | 61,467                 | 744,941                 | 23,446                 | 768,387                 |
| Museum                   | 35,822                  | (27,261)               | 8,561                   | 5,227                  | 13,788                  |
| Peer Assistance          | 97,600                  | (4,865)                | 92,735                  | (4,648)                | 88,087                  |
| Insurance Trust          | 1,596,389               | (118,981)              | 1,477,408               | (33,141)               | 1,444,267               |
| Total undesignated       | 8,161,313               | (806,662)              | 7,354,651               | 400,414                | 7,755,065               |
| Board-designated -       |                         |                        |                         |                        |                         |
| Education Foundation     | 3,224,606               | (96,609)               | 3,127,997               | 210,316                | 3,338,313               |
| Permanently restricted - |                         |                        |                         |                        |                         |
| Education Foundation     | 30,450                  | -                      | 30,450                  | -                      | 30,450                  |
| Totals                   | <u>\$ 11,416,369</u>    | <u>\$ (903,271)</u>    | <u>\$ 10,513,098</u>    | <u>\$ 610,730</u>      | <u>\$ 11,123,828</u>    |

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### 10. Endowment Funds

#### *Board-Designated Endowments*

As required by GAAP, net assets associated with endowment funds, including funds designated by the Organization to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

As of May 31, 2017 and 2016, the Organization had designated \$3,338,813 and \$3,127,997, respectively, of unrestricted net assets as a general endowment fund to support scholarships for students and research and development toward continuing professional education. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Organization's approved spending policy was created to protect the values of the endowments. Distribution of funds is determined annually during budgetary board of directors meetings. To achieve the objectives of the endowments, the Organization has adopted an investment policy that attempts to maximize total return, consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation protected rate of return that has sufficient liquidity to make annual distributions, while growing the fund, if possible. Accordingly, the Organization expects its endowment assets, over time, to produce an average rate of return in line with the Organization's investment policy.

Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

#### *Donor-Restricted Endowments*

As of May 31, 2017 and 2016, the Organization maintained two individual donor-restricted endowments. The donor-restricted endowments received specified that the funds be classified as permanently restricted endowments. Donor-restricted endowments follow the Organization's spending policy for the Education Foundation. The purpose of the endowments is to provide scholarships for accounting students pursuing accounting course work that qualifies the student to sit for the certified public accountancy exam.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently

## Texas Society of Certified Public Accountants and Affiliates

### Notes to Financial Statements

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restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Endowment funds are categorized in the following net asset classes as of May 31, 2017 and 2016:

|                                  | 2017         |                           |              |
|----------------------------------|--------------|---------------------------|--------------|
|                                  | Unrestricted | Permanently<br>Restricted | Total        |
| Donor-restricted endowment funds | \$ -         | \$ 30,450                 | \$ 30,450    |
| Board-designated endowment funds | 3,338,313    | -                         | 3,338,313    |
| Total endowment funds            | \$ 3,338,313 | \$ 30,450                 | \$ 3,368,763 |

**Texas Society of Certified Public Accountants and Affiliates**  
**Notes to Financial Statements**

|                                  | 2016                |                           |                     |
|----------------------------------|---------------------|---------------------------|---------------------|
|                                  | Unrestricted        | Permanently<br>Restricted | Total               |
| Donor-restricted endowment funds | \$ -                | \$ 30,450                 | \$ 30,450           |
| Board-designated endowment funds | 3,127,997           | -                         | 3,127,997           |
| <b>Total endowment funds</b>     | <b>\$ 3,127,997</b> | <b>\$ 30,450</b>          | <b>\$ 3,158,447</b> |

Changes in the endowment funds by net asset classification for the years ended May 31, 2017 and 2016 are summarized as follows:

|  | 2017                |                           |                     |
|--|---------------------|---------------------------|---------------------|
|  | Unrestricted        | Permanently<br>Restricted | Total               |
| Endowment net assets, beginning of year  | \$ 3,127,997        | \$ 30,450                 | \$ 3,158,447        |
| Contributions                            | 69,883              | -                         | 69,883              |
| Investment income                        | 284,619             | -                         | 284,619             |
| Unrealized and realized gains            | 32,235              | -                         | 32,235              |
| Appropriation of assets for expenditure  | (176,421)           | -                         | (176,421)           |
| <b>Endowment net assets, end of year</b> | <b>\$ 3,338,313</b> | <b>\$ 30,450</b>          | <b>\$ 3,368,763</b> |

|  | 2016                |                           |                     |
|--|---------------------|---------------------------|---------------------|
|  | Unrestricted        | Permanently<br>Restricted | Total               |
| Endowment net assets, beginning of year  | \$ 3,224,606        | \$ 30,450                 | \$ 3,255,056        |
| Contributions                            | 71,789              | -                         | 71,789              |
| Investment loss                          | (21,082)            | -                         | (21,082)            |
| Unrealized and realized gains            | 24,905              | -                         | 24,905              |
| Appropriation of assets for expenditure  | (172,221)           | -                         | (172,221)           |
| <b>Endowment net assets, end of year</b> | <b>\$ 3,127,997</b> | <b>\$ 30,450</b>          | <b>\$ 3,158,447</b> |

# Texas Society of Certified Public Accountants and Affiliates

## Notes to Financial Statements

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### 11. Federal Income Taxes

The federal income tax provision consists of the following for the years ended May 31:

|                                      | <u>2017</u>     | <u>2016</u>      |
|--------------------------------------|-----------------|------------------|
| Current income tax refund            | \$ 42,924       | \$ 40,435        |
| Deferred income tax refund (expense) | <u>(37,572)</u> | <u>21,553</u>    |
| Federal income tax refund (expense)  | <u>\$ 5,352</u> | <u>\$ 61,988</u> |

Deferred tax liability consists of the following as of May 31:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Unrealized cumulative gains on investments | \$ 169,625        | \$ 131,025        |
| Other                                      | <u>(1,369)</u>    | <u>(341)</u>      |
| Net deferred tax liability                 | <u>\$ 168,256</u> | <u>\$ 130,684</u> |

Income tax expense for the years ended May 31, 2017 and 2016 differs from the amount computed by multiplying the statutory federal income tax rate times income before income taxes, because deferred income taxes are based on average tax rates.

### 12. Grants

Peer Assistance was granted awards totaling approximately \$107,500 for the years ended May 31, 2017 and 2016 from the Texas State Board of Public Accountancy. The awards are to be utilized for the purpose of increasing awareness and utilization of the Peer Assistance program. The grant has been recorded as other income in the combined statements of activities and changes in net assets.

### 13. Service Agreements

On June 27, 2011, the Organization entered into a service agreement with a company to provide online management support for its users and members that automatically renews annually. Under the agreement, the Organization is responsible to pay for its implementation. As a result, the Organization capitalized \$502,250 of software costs associated with the development and implementation. Additionally, the Organization will have an obligation to pay monthly minimum licensing and hosting fees after implementation. The Organization paid \$102,000 and \$117,990 for the years ended May 31, 2017 and 2016, respectively, under this agreement.

## **Texas Society of Certified Public Accountants and Affiliates**

### **Notes to Financial Statements**

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The Organization entered into a service agreement on January 1, 2015 with a company to provide website design and support. The Organization paid \$38,400 and \$10,824 for the years ended May 31, 2017 and 2016, respectively, under this agreement.

The Organization entered into a service agreement on September 1, 2015 with a company to provide software installation, licensing, maintenance and support. The Organization paid \$6,700 and \$30,000 for the years ended May 31, 2017 and 2016, respectively, under this agreement.

The Organization entered into a service agreement on September 12, 2014 with a company to provide technology consulting through September 30, 2015. For the year ended May 31, 2016, the Organization paid \$25,400 under this agreement. No fees were paid during the year ended May 31, 2017.

The Organization entered into agreements for regulatory and legislative services. The Organization paid \$60,000 and \$80,000 for the years ended May 31, 2017 and 2016, respectively, under this agreement.

The Organization entered into an agreement on June 1, 2016 for services provided to the Federal Tax Policy Committee. The Organization paid approximately \$25,000 and \$6,000 for the years ended May 31, 2017 and 2016, respectively, under this agreement.

#### **14. Subsequent Events**

The Organization evaluated subsequent events after the combined statement of financial position date of May 31, 2017 through November 16, 2017, which was the date the combined financial statements were available to be issued, and concluded that no additional disclosures are required.

## Supplementary Information

**Texas Society of Certified Public Accountants and Affiliates**  
**Combining Statement of Financial Position**  
**May 31, 2017**

|   | Texas Society of Certified Public Accountants | Accounting Education Foundation of the Texas Society of Certified Public Accountants, Inc. | Texas Society of Certified Public Accountants CPE Foundation, Inc. | Texas Society of Certified Public Accountants Political Action Committee | Texas Society of Certified Public Accountants Museum of Texas | Texas Society of Certified Public Accountants Peer Assistance Foundation | Texas Society of Certified Public Accountants Insurance Trust | Total                |
|---|---|--|--|--|---|--|---|----------------------|
| <b>Assets</b>                               |   |  |  |  |   |  |   |                      |
| Cash and cash equivalents                   | \$ 1,584,681                                  | \$ 537,976   | \$ 251,932   | \$ 507,602   | \$ 11,791   | \$ 94,867  | \$ 125,269  | \$ 3,114,118         |
| Investments                                 | 6,275,174                                     | 2,869,963  | 1,509,182  | 333,780  | -   | -  | 1,442,663   | 12,430,762           |
| Accounts receivable, net                    | 43,035  | 32,562   | 65,452   | -  | -   | -  | -   | 141,049              |
| Federal income tax receivable               | -   | -  | -  | -  | -   | -  | 38,501  | 38,501               |
| Deferred costs and prepaid expenses         | 159,324                                       | 2,460  | 37,572   | -  | -   | -  | -   | 199,356              |
| Fixed assets, net                           | 291,144                                       | -  | -  | -  | -   | -  | -   | 291,144              |
| <b>Total assets</b>                         | <b>\$ 8,353,358</b>                           | <b>\$ 3,442,961</b>  | <b>\$ 1,864,138</b>  | <b>\$ 841,382</b>  | <b>\$ 11,791</b>  | <b>\$ 94,867</b>   | <b>\$ 1,606,433</b>   | <b>\$ 16,214,930</b> |
| <b>Liabilities and Net Assets</b>           |   |  |  |  |   |  |   |                      |
| <b>Liabilities:</b>                         |   |  |  |  |   |  |   |                      |
| Accounts payable and other liabilities      | \$ 588,038                                    | \$ -   | \$ 212,785   | \$ -   | \$ -  | \$ 3,655   | \$ -  | \$ 804,478           |
| Due to local chapters                       | 442,397                                       | -  | 2,256  | 101,692  | -   | -  | -   | 546,345              |
| Deferred membership fees and course revenue | 2,707,086                                     | -  | 432,569  | -  | -   | -  | -   | 3,139,655            |
| Deferred rent                               | 188,216                                       | -  | -  | -  | -   | -  | -   | 188,216              |
| Deferred tax liability                      | -   | -  | -  | -  | -   | -  | 168,256   | 168,256              |
| Intercompany (receivable) payable           | 127,079                                       | (802)  | (92,618)   | (28,697)   | (1,997)   | 3,125  | (6,090)   | -                    |
| Other deferred revenue                      | 244,152                                       | -  | -  | -  | -   | -  | -   | 244,152              |
| <b>Total liabilities</b>                    | <b>4,296,968</b>                              | <b>(802)</b>   | <b>554,992</b>   | <b>72,995</b>  | <b>(1,997)</b>  | <b>6,780</b>   | <b>162,166</b>  | <b>5,091,102</b>     |
| <b>Net assets:</b>                          |   |  |  |  |   |  |   |                      |
| Unrestricted net assets:                    |   |  |  |  |   |  |   |                      |
| Undesignated                                | 4,056,390                                     | 75,000   | 1,309,146  | 768,387  | 13,788  | 88,087   | 1,444,267   | 7,755,065            |
| Board-designated                            | -   | 3,338,313  | -  | -  | -   | -  | -   | 3,338,313            |
| <b>Total unrestricted net assets</b>        | <b>4,056,390</b>                              | <b>3,413,313</b>   | <b>1,309,146</b>   | <b>768,387</b>   | <b>13,788</b>   | <b>88,087</b>  | <b>1,444,267</b>  | <b>11,093,378</b>    |
| Permanently restricted net assets           | -   | 30,450   | -  | -  | -   | -  | -   | 30,450               |
| <b>Total net assets</b>                     | <b>4,056,390</b>                              | <b>3,443,763</b>   | <b>1,309,146</b>   | <b>768,387</b>   | <b>13,788</b>   | <b>88,087</b>  | <b>1,444,267</b>  | <b>11,123,828</b>    |
| <b>Total liabilities and net assets</b>     | <b>\$ 8,353,358</b>                           | <b>\$ 3,442,961</b>  | <b>\$ 1,864,138</b>  | <b>\$ 841,382</b>  | <b>\$ 11,791</b>  | <b>\$ 94,867</b>   | <b>\$ 1,606,433</b>   | <b>\$ 16,214,930</b> |

**Texas Society of Certified Public Accountants and Affiliates**  
**Combining Statement of Activities and Changes in Net Assets**  
**Year Ended May 31, 2017**

|  | Texas Society of<br>Certified Public<br>Accountants | Accounting<br>Education<br>Foundation of<br>the Texas Society<br>of Certified<br>Public<br>Accountants, Inc. | Texas Society of<br>Certified Public<br>Accountants<br>CPE Foundation,<br>Inc. | Texas Society of<br>Certified Public<br>Accountants<br>Political Action<br>Committee | Texas Society of<br>Certified Public<br>Accountants<br>Museum of<br>Texas | Texas Society of<br>Certified Public<br>Accountants<br>Peer Assistance<br>Foundation | Texas Society of<br>Certified Public<br>Accountants<br>Insurance Trust | Total                |
|--|---|--|--|--|---|--|--|----------------------|
| <b>Unrestricted revenues and other support:</b>      |   |  |  |  |   |  |  |                      |
| Membership dues                                      | \$ 5,514,209  | \$ -   | \$ -   | \$ -   | \$ -  | \$ -   | \$ -   | \$ 5,514,209         |
| Continuing professional education                    | -   | -  | 2,679,445  | -  | -   | -  | -  | 2,679,445            |
| Peer review  | 994,407   | -  | -  | -  | -   | -  | -  | 994,407              |
| Publications   | 40,970  | -  | -  | -  | -   | -  | -  | 40,970               |
| Contributions  | -   | 69,883   | -  | 141,055  | 6,517   | 19,590   | -  | 237,045              |
| Investment income (loss)                             | 622,384   | 284,619  | 164,322  | 33,410   | -   | -  | 143,588  | 1,248,323            |
| Other income   | 427,171   | 32,235   | 71,111   | -  | -   | 107,593  | -  | 638,110              |
| <b>Total unrestricted revenues and other support</b> | <b>7,599,141</b>                                    | <b>386,737</b>   | <b>2,914,878</b>   | <b>174,465</b>   | <b>6,517</b>  | <b>127,183</b>   | <b>143,588</b>   | <b>11,352,509</b>    |
| <b>Expenses:</b>                                     |   |  |  |  |   |  |  |                      |
| Membership activities                                | 2,949,112   | -  | 2,875,011  | -  | 1,290   | 131,831  | -  | 5,957,244            |
| Regulatory and legislative                           | 909,964   | -  | -  | 148,551  | -   | -  | -  | 1,058,515            |
| Accounting education                                 | 82,457  | 176,421  | -  | -  | -   | -  | -  | 258,878              |
| External relations                                   | 132,353   | -  | -  | -  | -   | -  | -  | 132,353              |
| Administration                                       | 3,151,040   | -  | -  | -  | -   | -  | -  | 3,151,040            |
| Charges (to) from related entities                   | (170,822)   | -  | 152,302  | -  | -   | -  | 18,520   | -                    |
| Insurance trust expenses                             | 23,072  | -  | -  | -  | -   | -  | 166,029  | 189,101              |
| <b>Total expenses</b>                                | <b>7,077,176</b>                                    | <b>176,421</b>   | <b>3,027,313</b>   | <b>148,551</b>   | <b>1,290</b>  | <b>131,831</b>   | <b>184,549</b>   | <b>10,747,131</b>    |
| Increase (decrease) in net assets before taxes       | 521,965   | 210,316  | (112,435)  | 25,914   | 5,227   | (4,648)  | (40,961)   | 605,378              |
| Federal income tax refund (expense)                  | -   | -  | -  | (2,468)  | -   | -  | 7,820  | 5,352                |
| <b>Increase (decrease) in net assets</b>             | <b>521,965</b>                                      | <b>210,316</b>   | <b>(112,435)</b>   | <b>23,446</b>  | <b>5,227</b>  | <b>(4,648)</b>   | <b>(33,141)</b>  | <b>610,730</b>       |
| <b>Net assets at beginning of year</b>               | <b>3,534,425</b>                                    | <b>3,233,447</b>   | <b>1,421,581</b>   | <b>744,941</b>   | <b>8,561</b>  | <b>92,735</b>  | <b>1,477,408</b>   | <b>10,513,098</b>    |
| <b>Net assets at end of year</b>                     | <b>\$ 4,056,390</b>                                 | <b>\$ 3,443,763</b>  | <b>\$ 1,309,146</b>  | <b>\$ 768,387</b>  | <b>\$ 13,788</b>  | <b>\$ 88,087</b>   | <b>\$ 1,444,267</b>  | <b>\$ 11,123,828</b> |

**Texas Society of Certified Public Accountants and Affiliates**  
**Combining Statement of Cash Flows**  
**Year Ended May 31, 2017**

|   | Texas Society of<br>Certified Public<br>Accountants | Accounting<br>Education<br>Foundation of<br>the Texas<br>Society of<br>Certified Public | Texas Society of<br>Certified Public<br>Accountants,<br>CPE Foundation,<br>Inc. | Texas Society of<br>Certified Public<br>Accountants<br>Political Action<br>Committee | Texas Society of<br>Certified Public<br>Accountants<br>Museum of<br>Texas | Texas Society of<br>Certified Public<br>Accountants<br>Peer Assistance<br>Foundation | Texas Society of<br>Certified Public<br>Accountants<br>Insurance Trust | Total               |
|---|---|---|---|--|---|--|--|---------------------|
| <b>Cash flows from operating activities:</b>  |   |   |   |  |   |  |  |                     |
| Increase (decrease) in net assets   | \$ 521,965  | \$ 210,316  | \$ (112,435)  | \$ 23,446  | \$ 5,227  | \$ (4,648)   | \$ (33,141)  | \$ 610,730          |
| Adjustments to reconcile increase (decrease)<br>in net assets to net cash provided (used) by<br>operating activities: |   |   |   |  |   |  |  |                     |
| Depreciation  | 101,126   | -   | 49,383  | -  | -   | -  | -  | 150,509             |
| Realized and unrealized (gains) losses on<br>investments  | (661,941)   | (302,739)   | 175,968   | (35,207)   | -   | -  | (152,180)  | (976,099)           |
| Changes in assets and liabilities:  |   |   |   |  |   |  |  |                     |
| Accounts receivable, net  | 3,373   | 20,587  | 6,495   | -  | -   | -  | -  | 30,455              |
| Federal income tax receivable   | -   | -   | -   | -  | -   | -  | 17,510   | 17,510              |
| Deferred costs and prepaid expenses   | 47,180  | 382   | 47,813  | -  | -   | -  | -  | 95,375              |
| Accounts payable and other liabilities  | (101,995)   | -   | (74,385)  | -  | -   | (294)  | -  | (176,674)           |
| Due to local chapters   | 84,997  | -   | (1,594)   | (23,833)   | -   | -  | -  | 59,570              |
| Deferred membership fees and course revenue   | 207,538   | -   | 17,866  | -  | -   | -  | -  | 225,404             |
| Deferred rent   | (12,316)  | -   | -   | -  | -   | -  | -  | (12,316)            |
| Deferred tax liability  | -   | -   | -   | -  | -   | -  | 37,572   | 37,572              |
| Other deferred revenue  | 75,855  | -   | -   | -  | -   | -  | -  | 75,855              |
| Intercompany receivable/payable   | 155,236   | 8,524   | (121,711)   | (28,697)   | (575)   | (1,146)  | (11,631)   | -                   |
| <b>Net cash provided (used) by<br/>operating activities</b>   | <b>421,018</b>                                      | <b>(62,930)</b>   | <b>(12,600)</b>   | <b>(64,291)</b>  | <b>4,652</b>  | <b>(6,088)</b>   | <b>(141,870)</b>   | <b>137,891</b>      |
| <b>Cash flows from investing activities:</b>  |   |   |   |  |   |  |  |                     |
| Redemptions of marketable<br>securities, net  | 40,466  | 18,507  | 9,732   | 2,152  | -   | -  | 9,303  | 80,160              |
| Additions to fixed assets   | (160,956)   | -   | -   | -  | -   | -  | -  | (160,956)           |
| <b>Net cash provided (used) by investing activities</b>   | <b>(120,490)</b>                                    | <b>18,507</b>   | <b>9,732</b>  | <b>2,152</b>   | <b>-</b>  | <b>-</b>   | <b>9,303</b>   | <b>(80,796)</b>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>300,528</b>                                      | <b>(44,423)</b>   | <b>(2,868)</b>  | <b>(62,139)</b>  | <b>4,652</b>  | <b>(6,088)</b>   | <b>(132,567)</b>   | <b>57,095</b>       |
| <b>Cash and cash equivalents at beginning of year</b>   | <b>1,284,153</b>                                    | <b>582,399</b>  | <b>254,800</b>  | <b>569,741</b>   | <b>7,139</b>  | <b>100,955</b>   | <b>257,836</b>   | <b>3,057,023</b>    |
| <b>Cash and cash equivalents at end of year</b>   | <b>\$ 1,584,681</b>                                 | <b>\$ 537,976</b>   | <b>\$ 251,932</b>   | <b>\$ 507,602</b>  | <b>\$ 11,791</b>  | <b>\$ 94,867</b>   | <b>\$ 125,269</b>  | <b>\$ 3,114,118</b> |