

Texas Society of Certified Public Accountants and Affiliates

Combined Financial Statements May 31, 2022 and 2021



Texas Society of Certified Public Accountants and Affiliates Contents

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Independent Auditors' Report

To the Board of Directors of Texas Society of Certified Public Accountants and Affiliates

Opinion

We have audited the accompanying combined financial statements of Texas Society of Certified Public Accountants and Affiliates (collectively, the Organization), which comprise the combined statements of financial position as of May 31, 2022 and 2021, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization as of May 31, 2022 and 2021, 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 (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with GAAP, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was 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, 2022, 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material resects in relation to the combined financial statements as a whole.

A Limited Liability Partnership

Sutton Front Cary

Arlington, Texas October 27, 2022

Texas Society of Certified Public Accountants and Affiliates Combined Statements of Financial Position May 31, 2022 and 2021

		2022		2021					
Assets									
Cash and cash equivalents Investments Accounts receivable, net Deferred costs and prepaid expenses Fixed assets, net Total assets	\$	6,231,004 18,225,032 44,626 229,419 17,473 24,747,554	\$	7,372,958 17,384,408 107,898 268,485 52,974 25,186,723					
Liabilities and Net Assets									
Liabilities:									
Accounts payable and other liabilities	\$	1,007,076	\$	644,990					
Federal income tax payable		177		3,360					
Due to local chapters		352,151		367,680					
Deferred revenue		3,581,177		3,614,349					
Deferred rent		36,054		76,975					
Deferred tax liability		139,954		376,422					
Refundable advances				211,955					
Total liabilities		5,116,589		5,295,731					
Net assets:									
Without donor restrictions		19,327,501		19,712,236					
With donor restrictions		303,464		178,756					
Total net assets		19,630,965		19,890,992					
Total liabilities and net assets	\$	24,747,554	\$	25,186,723					

Texas Society of Certified Public Accountants and Affiliates Combined Statements of Activities and Changes in Net Assets Years Ended May 31, 2022 and 2021

		2022		2021
Net assets without donor restrictions:				
Revenues and other support:				
Membership dues	\$	4,805,978	\$	4,985,312
Continuing professional education	•	2,450,900	•	1,846,552
Peer review		1,039,854		1,044,533
Contributions		217,259		114,432
In-kind contributions		193,901		64,421
Government grant revenue		384,885		669,864
Sponsorships		154,910		103,065
Management fees		322,976		301,896
Insurance premium royalties		84,059		84,044
Net investment income (loss)		(1,158,652)		3,677,501
Other income		207,311		221,452
Net assets released from restrictions		15,500		
Total revenues and other support		8,718,881		13,113,072
Expenses:				
Program:				
Member activities		1,959,823		2,268,222
Continuing education		3,187,581		1,488,909
Regulatory and legislative		957,268		943,513
Peer review		954,808		909,471
Accounting education		387,012		191,199
External relations		74,280		60,452
Total program expenses		7,520,772		5,861,766
Supporting:				
General and administrative		1,741,401		1,486,796
Insurance trust		60,719		37,814
Total supporting expenses		1,802,120		1,524,610
Total expenses		9,322,892		7,386,376
Increase (decrease) in net assets without donor restrictions before taxes		(604,011)		5,726,696
Federal income tax (benefit) expense		(219,276)		155,638
Increase (decrease) in net assets without donor restrictions		(384,735)		5,571,058
Net assets with donor restrictions:				
Contributions		140,208		98,306
Releases from net assets with donor restrictions		(15,500)		_
Increase in net assets with donor restrictions		124,708		98,306
Increase (decrease) in net assets		(260,027)		5,669,364
Net assets at beginning of year		19,890,992		14,221,628
Net assets at end of year	\$ 2	19,630,965	\$	19,890,992

Texas Society of Certified Public Accountants and Affiliates Combined Statement of Functional Expenses Year Ended May 31, 2022

	Program Services Program Services								Supporting Services			
	Member	Continuing	Regulatory and	Peer	Accounting	External	Total	General and	Insurance	Total		
	Activities	Activities Education		Review	Education	Relations	Program	Administrative	Trust	Supporting	Totals	
Salaries	\$ 1,187,513	\$ 1,123,786	\$ 638,401	\$ 820,894	\$ 152,899	\$ 25,916	\$ 3,949,409	\$ 675,522	\$ 30,056	\$ 705,578	\$ 4,654,987	
Program	-	1,511,218	-	-	706	-	1,511,924	-	-	-	1,511,924	
Occupancy	129,165	115,389	33,009	78,325	11,816	2,434	370,138	61,158	2,947	64,105	434,243	
Meetings and travel	89,483	23,890	28,785	9,788	5,874	1,267	159,087	411,171	1,327	412,498	571,585	
Professional fees	206,113	97,076	151,378	11,017	15,745	12,025	493,354	334,918	4,843	339,761	833,115	
Bank and payroll fees	49,904	99,017	4,517	10,491	19,729	22	183,680	69,195	5,918	75,113	258,793	
Office expenses	161,384	78,531	6,347	12,303	17,131	31,626	307,322	93,271	13,777	107,048	414,370	
Rentals and repair and maintenance	33,189	64,580	235	1,301	201	41	99,547	25,787	341	26,128	125,675	
Dues and subscriptions	92,633	56,524	15,534	10,441	5,340	949	181,421	63,927	1,362	65,289	246,710	
Scholarships and awards	-	-	-	-	157,039	-	157,039	-	-	-	157,039	
Depreciation	10,439	17,570	112	248	532	-	28,901	6,452	148	6,600	35,501	
Campaign contributions			78,950				78,950				78,950	
	\$ 1,959,823	\$ 3,187,581	\$ 957,268	\$ 954,808	\$ 387,012	\$ 74,280	\$ 7,520,772	\$ 1,741,401	\$ 60,719	\$ 1,802,120	\$ 9,322,892	

Texas Society of Certified Public Accountants and Affiliates Combined Statement of Functional Expenses Year Ended May 31, 2021

		Program Services										Supporting Services										
		Member	Continuing		Regulatory and			Peer		Accounting		External Tota		Total	General and		Insurance		Total			
	Activities Education		Legislative		Review		Education		Relations		Program		Administrative		Trust		Supporting			Totals		
Salaries	\$	1,578,540	\$	538,268	\$	574,953	\$	779,130	\$	20,287	\$	9,680	\$	3,500,858	\$	782,376	\$	21,185	\$	803,561	\$	4,304,419
Program		-		666,406		-		-		-		-		666,406		-		-		-		666,406
Occupancy		154,677		79,423		22,855		85,437		3,471		982		346,845		76,044		1,441		77,485		424,330
Meetings and travel		18,639		2,143		1,414		2,731		191		45		25,163		23,545		151		23,696		48,859
Professional fees		203,109		50,075		134,875		11,484		7,121		25,483		432,147		244,087		3,054		247,141		679,288
Bank and payroll fees		61,531		62,141		2,753		14,382		12,883		47		153,737		120,071		139		120,210		273,947
Office expenses		104,734		19,345		5,551		9,819		6,357		22,433		168,239		79,327		10,513		89,840		258,079
Rentals and repair and maintenance		36,966		47,477		-		-		-		-		84,443		50,593		531		51,124		135,567
Dues and subscriptions		76,109		9,568		14,859		5,474		1,393		1,782		109,185		72,044		489		72,533		181,718
Scholarships and awards		-		-		-		-		139,213		-		139,213		-		-		-		139,213
Depreciation		33,917		14,063		778		1,014		283		-		50,055		38,709		311		39,020		89,075
Campaign contributions						185,475								185,475								185,475
	\$	2,268,222	\$	1,488,909	\$	943,513	\$	909,471	\$	191,199	\$	60,452	\$	5,861,766	\$	1,486,796	\$	37,814	\$	1,524,610	\$	7,386,376

Texas Society of Certified Public Accountants and Affiliates Combined Statements of Cash Flows Years Ended May 31, 2022 and 2021

		2022		2021
Cash flows from operating activities:				
Increase (decrease) in net assets	\$	(260,027)	\$	5,669,364
Adjustments to reconcile increase (decrease) in net assets	·	, ,	•	, ,
to net cash provided by operating activities:				
Depreciation		35,501		89,075
Change in allowance for doubtful accounts		(2,316)		(435)
Change in deferred tax liability		(236,468)		150,675
Unrealized and realized gains (losses) on investments		1,499,597		(3,370,384)
Changes in assets and liabilities:				
Accounts receivable		65,588		(11,756)
Deferred costs and prepaid expenses		39,066		(40,934)
Accounts payable and other liabilities		362,086		(182,208)
Federal income tax payable		(3,183)		5,425
Due to local chapters		(15,529)		(81,315)
Deferred revenue		(33,172)		185,562
Deferred rent		(40,921)		(34,961)
Refundable advances		(211,955)		164,340
Net cash provided by operating activities		1,198,267		2,542,448
Cash flows from investing activities:				
Purchases of investments		(2,965,621)		(1,845,972)
Proceeds from sales of investments		625,400		1,539,161
Net cash used by investing activities		(2,340,221)		(306,811)
Net increase (decrease) in cash and cash equivalents		(1,141,954)		2,235,637
Cash and cash equivalents at beginning of year		7,372,958		5,137,321
Cash and cash equivalents at end of year	\$	6,231,004	\$	7,372,958

1. Organization

The Texas Society of Certified Public Accountants (Society) was organized for the purpose of furthering the accounting profession and exists to support its members in their professional endeavors and to promote the value and high standards of Texas Certified Public Accountants (CPAs). 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 CPAs located primarily in Texas.

The Accounting Education Foundation (Education Foundation) was incorporated to advance education, awareness and thought leadership related to the study, teaching and practice of accountancy and allied fields through charitable, educational and research initiatives.

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 board of directors of the CPE Foundation voted to merge the entity into the Education Foundation effective May 31, 2022. All assets and liabilities at the time of the merger were transferred to the Education Foundation.

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 Peer Assistance Foundation (Peer Assistance) was organized to provide assistance to members with drug and alcohol related problems and mental health related conditions. Peer Assistance is funded through contributions from the membership of the Society and grants provided by the Texas State Board of Public Accountancy. The board of directors voted to dissolve Peer Assistance effective May 31, 2022. Remaining assets and liabilities at the time of dissolution were transferred to the Society.

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, 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 accounting principles generally accepted in the United States of America (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 Education 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.

Combined 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:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors/trustees for the respective entity.

Net assets with donor restrictions - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board of directors/trustees approved spending policy.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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. Contributions with donor-imposed restrictions that are met in the same year as the contributions were received are reported as net assets without donor restrictions.

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, 2022, the Organization's uninsured balances totaled \$5,100,164.

The allowance for doubtful accounts totaled \$916 and \$2,316 as of May 31, 2022 and 2021, respectively. All receivables are expected to be collected within one year.

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.

Dividend on Deposit

At May 31, 2022 and 2021, the Insurance Trust had dividends on deposit with an insurance company totaling \$1,265,048 and \$1,102,149, respectively. The dividends on deposit must be used for the benefit of the members participating in the insurance plans and are the result of dividends payable to the Insurance Trust based on underwriting profits related to its insurance program. Since the account balance could vary as future claims are paid, the Organization has not recorded an asset related to this amount. From time to time, the Organization may request that dividends be utilized to cover certain premiums for participants. In addition, the Organization may request distributions to cover allowable expenses to manage the insurance program, and dividend revenue is recognized as amounts are received.

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 using 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 and management fees are recognized when the services are rendered. 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.

Contributed Services

Donated services are recognized as contributions at their estimated fair value if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. The Organization receives significant in-kind contributions of time and pro bono services from its members related to program operations, 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.

During the years ended May 31, 2022 and 2021, the Organization received donated services for legal consultation with a total value of \$193,901 and \$64,421, respectively, which were valued at the standard hourly rates charged for those services. All donated services were utilized by the Organization's supporting services. There were no donor-imposed restrictions associated with the donated services.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$50,982 and \$42,186 for the years ended May 31, 2022 and 2021, respectively.

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.

Costs specifically identifiable to only one function are charged 100% to that function. Expenses not directly chargeable to one functional category are allocated based upon estimated percentages of time and effort.

Income Taxes

The Society, Education Foundation, CPE Foundation, 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 13).

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, 2022 and 2021, 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.

Reclassifications

Certain reclassifications have been made to the May 31, 2021 combined financial statements to conform to the May 31, 2022 presentation.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting Standards updates (ASUs) to the FASB's Accounting Standards Codification.

The Organization considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be not applicable or are expected to have minimal impact on the Organization's financial position and changes in net assets.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases*, for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the combined statements of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statements of activities will depend on a lease's classification. For not-for-profit (NFP) organizations, the standard takes effect for fiscal years beginning after December 15, 2021.

The Organization is currently assessing the impact that adopting this new guidance will have on the combined financial statements.

Accounting Pronouncements Adopted

The Organization adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU 2020-07). ASU 2020-07 increases transparency of contributed nonfinancial assets for NFP entities through enhancements to presentation and disclosure. The amendments in ASU 2020-07 address stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. ASU 2020-07 requires NFPs to present contributed nonfinancial assets (gifts in-kind) as a separate line item in the statement of activities. The Organization has adopted this ASU on a retrospective basis as of and for the year ended May 31, 2021.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes gifts in-kind, and therefore, no changes were required to net assets as of June 1, 2020. The presentation and disclosures of gifts in-kind have been enhanced in accordance with the standard.

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, 2022 and 2021, the Organization has Level 1 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.

4. Investments

The Organization measures its investments at fair value. Fair values of assets measured on a recurring basis using Level 1 inputs as of May 31 are as follows:

		2022	2021
Money market funds	\$	755,729	\$ 295,587
Equity securities	•	7,323,363	8,353,055
International securities		2,233,765	2,720,140
Bond funds		7,912,175	6,015,626
Totals	\$	18,225,032	\$ 17,384,408

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

	 2022	2021
Interest and dividends Unrealized and realized gains (losses) on investments	\$ 340,945 (1,499,597)	\$ 307,117 3,370,384
Net investment income (loss)	\$ (1,158,652)	\$ 3,677,501

5. Fixed Assets

Fixed assets are summarized as follows at May 31:

	2022	2021
Furniture	\$ 219,134	\$ 219,134
Equipment and software	1,298,889	1,298,889
Leasehold improvements	82,528	 82,528
Less: accumulated depreciation	1,600,551 (1,583,078)	1,600,551 (1,547,577)
	\$ 17,473	\$ 52,974

Depreciation expense related to the above fixed assets totaled \$35,501 and \$89,075 for the years ended May 31, 2022 and 2021, respectively.

6. Deferred Revenue

The following schedule summarizes deferred revenue at May 31:

	2022		2021
Membership fees paid in advance	\$	3,049,417	\$ 3,111,295
Course fees paid in advance		236,730	234,421
Peer review fees paid in advance		230,215	251,183
Other deferred revenue		64,815	 17,450
	\$	3,581,177	\$ 3,614,349

7. Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. In April 2020, the CPE Foundation and Peer Assistance entered into unsecured loan agreements (PPP Loans) totaling \$73,455 and \$21,773, respectively, with a bank pursuant to the Paycheck Protection Program (PPP), which is sponsored by the Small Business Administration, and is part of the CARES Act. On January 28, 2021, the Society entered into a PPP loan totaling \$726,704. On July 12, 2021, the CPE Foundation entered into a PPP loan totaling \$92,300. The Organization has elected to account for its PPP loans as conditional grants in accordance with Financial Accounting Standards Board Accounting Standard Codification Topic 958. As such, the portions received but not yet spent on allowable expenditures at year end have been recorded as refundable advances on the combined statements of financial position. The portions received and spent on allowable expenditures during the years ended May 31, 2022 and 2021 totaled \$304,255 and \$562,364, respectively, and have been recognized as revenue and included in government grant revenue on the combined statements of activities. On February 9, 2022, the Organization received formal forgiveness of the CPE Foundation's second PPP loan totaling \$92,300. On May 27, 2022, the Organization received formal forgiveness of the Society's second PPP loan totaling \$726,704.

8. 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 the Society's share of rent totaled \$29,092 and \$28,567 during the years ended May 31, 2022 and 2021, respectively.

The Society has a management agreement with the Austin Chapter to provide staff leadership, necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the chapter. Under the current agreement, which commenced on June 1, 2013 and is in effect until May 31, 2023, 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, 2022 and 2021, the fixed monthly service fee was \$17,690 and \$16,850, respectively.

The Society has a management agreement with the Corpus Christi Chapter to provide staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the chapter. Under the current agreement, which commenced on June 1, 2013 and is in effect until May 31, 2022, the Corpus Christi 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, 2022 and 2021, the fixed monthly service fee was \$1,850 and \$1,800, respectively.

The Society has a management agreement with the Permian Basin Chapter to provide staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the chapter. Under the current agreement, which commenced June 1, 2013 and is in effect until May 31, 2024, 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, 2022 and 2021, the fixed monthly service fee was \$1,800 and \$1,800, respectively.

The Society has a management agreement with the Southeast Texas Chapter to provide staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the chapter. Under the current agreement, which commenced on June 1, 2013 and is in effect until May 31, 2022, 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, 2022 and 2021, the fixed monthly service fee was \$1,250 and \$1,100, respectively.

The Society has a management agreement with the East Texas Chapter to provide staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the chapter. Under the current agreement, which commenced on April 1, 2019 and is in effect until May 31, 2022, the East 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, 2022 and 2021, the fixed monthly service fee was \$3,658 and \$3,608, respectively.

The Society has a management agreement with the Victoria Chapter to provide staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the chapter. Under the current agreement, which commenced on September 20, 2021 and is in effect until May 31, 2024, the Victoria 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 year ended May 31, 2022 the fixed monthly service fee was \$1,000.

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 9).

9. Leases

The Society entered into a noncancelable lease agreement for office space located in Austin, Texas. The lease expires December 31, 2028. 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 in 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.

Rental expense relating to the operating lease arrangements mentioned above for the years ended May 31, 2022 and 2021 totaled \$383,841 and \$394,317, respectively.

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

2023	\$ 328,523
2024	35,847
2025	36,372
2026	36,897
2027	34,569
Thereafter	51,228
	\$ 523,436

10. 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 \$175,403 and \$159,273 for the years ended May 31, 2022 and 2021, respectively. The Organization's matching contribution expense totaled \$97,323 and \$111,384 for the years ended May 31, 2022 and 2021, respectively.

11. Net Assets

At May 31, 2022, net assets without donor restrictions included \$2,591,657 designated by the board of directors to continue the mission of the CPE Foundation. See Note 12 for information on board-designated endowments.

12. 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, 2022 and 2021, the Organization had designated \$4,005,026 and \$4,260,898, respectively, of net assets without donor restrictions 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 net assets without donor restrictions.

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/trustees 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, 2022 and 2021, the Organization maintained various individual donor-restricted endowments. The donor-restricted endowments received specified that the funds be restricted in perpetuity. 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 Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) 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 donor-restricted net assets (a) the original value of gifts donated in perpetuity, (b) the original value of subsequent gifts and (c) accumulations to donor-restricted endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. All of these net assets are also subject to purpose restrictions that must be met before being reclassified to net assets without donor restrictions.

In accordance with TUPMIFA, 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:

	2022						
	Without Donor Restrictions	With Donor Restrictions	Total				
Donor-restricted endowment funds Board-designated endowment funds	\$ - 4,005,026	\$ 303,464	\$ 303,464 4,005,026				
Total endowment funds	\$ 4,005,026	\$ 303,464	\$ 4,308,490				
		2021					
	Without Donor Restrictions	With Donor Restrictions	Total				
	Restrictions	Restrictions	Total				
Donor-restricted endowment funds Board-designated endowment funds	\$ - 4,260,898	\$ 178,756 -	\$ 178,756 4,260,898				
Total endowment funds	\$ 4,260,898	\$ 178,756	\$ 4,439,654				

Changes in the endowment funds by net asset classification for the years ended May 31:

	2022							
		thout Donor estrictions		ith Donor strictions		Total		
Endowment net assets, beginning of year Contributions Investment income Unrealized and realized losses	\$	4,260,898 - 83,034 (192,516)	\$	178,756 140,208 - - (15,500)	\$	4,439,654 140,208 83,034 (192,516)		
Appropriation of assets for expenditure Endowment net assets, end of year	<u> </u>	(146,390) 4,005,026	\$	(15,500)	\$	(161,890) 4,308,490		

	2021							
		thout Donor estrictions		th Donor		Total		
Endowment net assets, beginning of year	\$	3,599,211	\$	80,450	\$	3,679,661		
Contributions and other income		-		98,306		98,306		
Investment income		75,009		-		75,009		
Unrealized and realized gains		728,741		-		728,741		
Appropriation of assets for expenditure		(142,063)		-		(142,063)		
Endowment net assets, end of year	\$	4,260,898	\$	178,756	\$	4,439,654		

13. Federal Income Taxes

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

	2022			2021		
Current income tax expense Deferred income tax (benefit) expense	\$	17,192 (236,468)	\$	4,963 150,675		
Federal income tax (benefit) expense	\$	(219,276)	\$	155,638		

The deferred tax liability consists of the following as of May 31:

	2022			2021		
Unrealized cumulative gains on investments Other		147,927 (7,973)	\$	376,630 (208)		
Net deferred tax liability	\$	139,954	\$	376,422		

Income tax expense for the years ended May 31, 2022 and 2021 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.

14. Grants

The Society was granted awards totaling approximately \$107,500 for the years ended May 31, 2022 and 2021 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 government grant revenue in the combined statements of activities and changes in net assets. In addition, \$26,875 in deferred grant revenue was included in the combined statement of financial position as of May 31, 2022.

15. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the combined statements of financial position date for general expenditure are as follows as of May 31:

	2022	2021
Cash and cash equivalents Investments Accounts receivable, net	\$ 6,231,004 18,225,032 44,626	\$ 7,372,958 17,384,408 107,898
Total financial assets	24,500,662	24,865,264
Less amounts not available to management without board of directors' approval: Board-designated endowment fund Board-designated for the CPE Foundation	(4,005,026) (2,591,696)	(4,260,898)
Restricted in perpetuity	(303,464)	(178,756)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 17,600,476	\$ 20,425,610

The Organization strives to maintain liquid financial assets sufficient to cover general expenditures through the next member dues billing cycle (expected mid-April). Liquid financial assets in excess of minimum immediate cash requirements are invested in money market funds. Long-term financial assets are managed by the investments committee and housed at Vanguard.

16. Subsequent Events

On June 1, 2022, the Society entered into a management agreement with the Fort Worth Chapter to provide staff leadership and necessary personnel and management expertise to accomplish all the required staff functions for the effective operation of the chapter. The agreement expires May 31, 2025 and requires monthly services fees ranging from \$10,400 per month to \$11,000 per month.

The Organization evaluated subsequent events after the combined statement of financial position date of May 31, 2022, through 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, 2022

	Cer	as Society of tified Public ccountants	Accounting Education Foundation of the Texas Society of Certified Public Accountants, Inc.		Texas Society of Certified Public Accountants Political Action Committee		Texas Society of Certified Public Accountants Insurance Trust		Total
Assets									
Cash and cash equivalents	\$	4,115,397	\$	1,328,893	\$	781,150	\$	5,564	\$ 6,231,004
Investments		10,044,353		5,730,273		460,413		1,989,993	18,225,032
Accounts receivable, net		26,330		18,296		-		-	44,626
Deferred costs and prepaid expenses		167,399		62,020		-		-	229,419
Intercompany receivable (payable)		(201,468)		209,125		18,587		(26,244)	-
Fixed assets, net		9,498		7,975				-	17,473
Total assets	\$	14,161,509	\$	7,356,582	\$	1,260,150	\$	1,969,313	\$ 24,747,554
Liabilities and Net Assets									
Liabilities:									
Accounts payable and other liabilities	\$	809,344	\$	197,732	\$	-	\$	-	\$ 1,007,076
Federal income tax payable		-		-		-		177	177
Due to (from) local chapters		359,553		(5,067)		(2,335)		-	352,151
Deferred revenue		3,317,447		263,730		-		-	3,581,177
Deferred rent		36,054		-		-		-	36,054
Deferred tax liability						-		139,954	139,954
Total liabilities		4,522,398		456,395		(2,335)		140,131	5,116,589
Net assets:									
Without donor restrictions		9,639,111		6,596,723		1,262,485		1,829,182	19,327,501
With donor restrictions				303,464		-			 303,464
Total net assets		9,639,111		6,900,187		1,262,485		1,829,182	 19,630,965
Total liabilities and net assets	\$	14,161,509	\$	7,356,582	\$	1,260,150	\$	1,969,313	\$ 24,747,554

Texas Society of Certified Public Accountants and Affiliates Combining Statement of Activities and Changes in Net Assets Year Ended May 31, 2022

	Texas Society of Certified Public Accountants	Accounting Education Foundation of the Texas Society of Certified Public Accountants, Inc.	Texas Society of Certified Public Accountants Political Action Committee	Texas Society of Certified Public Accountants Insurance Trust	Total
Net assets without donor restrictions:					
Revenues and other support:					
Membership dues	\$ 4,805,978	\$ -	\$ -	\$ -	\$ 4,805,978
Continuing professional education	-	2,450,900	-	-	2,450,900
Peer review	1,039,854	-	-	-	1,039,854
Contributions	1,595	23,355	192,309	-	217,259
In-kind contributions	193,901	-	-	-	193,901
Government grant revenue	292,585	92,300	-	-	384,885
Sponsorships	60,000	94,910	-	-	154,910
Management fees	322,976	-	-	-	322,976
Insurance premium royalties	84,059	-	-	-	84,059
Net investment loss	(564,483)	(416,222)	(33,339)	(144,608)	(1,158,652)
Other income	203,990	3,321	-	-	207,311
Net assets released from restrictions		15,500			15,500
Total revenues and other support	6,440,455	2,264,064	158,970	(144,608)	8,718,881
Expenses:					
Member activities	1,959,823	-	-	-	1,959,823
Continuing education	846,115 *	2,341,466	-	-	3,187,581
Regulatory and legislative	876,707	-	80,561	-	957,268
Peer review	954,808	-	-	-	954,808
Accounting education	225,123	161,889	-	-	387,012
External relations	74,280	-	-	-	74,280
General and administrative	1,741,401	-	-	-	1,741,401
Insurance trust	23,733	`	<u> </u>	36,986	60,719
Total expenses	6,701,990	2,503,355	80,561	36,986	9,322,892
Increase (decrease) in net assets without					
donor restrictions before taxes	(261,535)	(239,291)	78,409	(181,594)	(604,011)
Federal income tax expense (benefit)			6,115	(225,391)	(219,276)
Increase (decrease) in net assets without donor restrictions	(261,535)	(239,291)	72,294	43,797	(384,735)
Net assets with donor restrictions:					
Contributions	_	140,208	_	_	140,208
Releases from net assets with donor restrictions	_	(15,500)	_	_	(15,500)
Increase in net assets with donor restrictions		124,708	-	-	124,708
Increase (decrease) in net assets	(261,535)	(114,583)	72,294	43,797	(260,027)
Net assets at beginning of year	9,900,646	7,014,770	1,190,191	1,785,385	19,890,992
Net assets at end of year	\$ 9,639,111	\$ 6,900,187	\$ 1,262,485	\$ 1,829,182	\$ 19,630,965

^{*} This amount is reported net of intercompany charges totaling \$150,000.

[^] This amount is reported net of intercompany charges totaling \$25,000.

Texas Society of Certified Public Accountants and Affiliates Combining Statement of Cash Flows

Year Ended May 31, 2022

	Texas Society of Certified Public Accountants	Accounting Education Foundation of the Texas Society of Certified Public Accountants, Inc.	Education Texas Society of ndation of the cas Society of Accountants rtified Public Political Action		Total
Cash flows from operating activities:					
Increase (decrease) in net assets	\$ (261,535)	\$ (114,583)	\$ 72,294	\$ 43,797	\$ (260,027)
Adjustments to reconcile increase (decrease) in net assets					
to net cash provided by operating activities					
Depreciation	23,537	11,964	-	-	35,501
Change in allowance for doubtful accounts	(2,316)	-	-	-	(2,316)
Change in deferred tax liability	-	-	-	(236,468)	(236,468)
Realized and unrealized gains on investments	733,681	536,485	43,108	186,323	1,499,597
Changes in assets and liabilities:					
Accounts receivable	38,347	27,241	-	-	65,588
Deferred costs and prepaid expenses	72,991	(33,925)	-	-	39,066
Intercompany receivable (payable)	15,383	(30,754)	1,210	14,161	-
Accounts payable and other liabilities	211,774	150,312	-	-	362,086
Federal income tax payable	-	-	-	(3,183)	(3,183)
Due to local chapters	(18,076)	(5,118)	(2,335)	10,000	(15,529)
Deferred revenue	(50,731)	17,559	-	-	(33,172)
Deferred rent	(40,921)	-	-	-	(40,921)
Refundable advances	(211,955)				(211,955)
Net cash provided by operating activities	510,179	559,181	114,277	14,630	1,198,267
Cash flows from investing activities:					
Purchases of investments	(2,478,454)	(341,243)	(27,418)	(118,506)	(2,965,621)
Proceeds from sales of investments	309,716	221,125	17,767	76,792	625,400
Net cash used by investing activities	(2,168,738)	(120,118)	(9,651)	(41,714)	(2,340,221)
Net increase (decrease) in cash and cash equivalents	(1,658,559)	439,063	104,626	(27,084)	(1,141,954)
Cash and cash equivalents at beginning of year	5,773,956	889,830	676,524	32,648	7,372,958
Cash and cash equivalents at end of year	\$ 4,115,397	\$ 1,328,893	\$ 781,150	\$ 5,564	\$ 6,231,004