NASBA

A STRONG DETERMINATION TO SERVE

2019 ANNUAL REPORT



RESOLVE

Founded in 1908, NASBA serves as a forum for the nation's 55 State Boards of Accountancy, which administer the Uniform CPA Examination, license more than 650,000 Certified Public Accountants and regulate the practice of public accountancy in the United States.

NASBA accomplishes its mission of enhancing the effectiveness and advancing the common interests of the Boards of Accountancy by creating innovative avenues for accounting regulators, educators and practitioners alike to address emerging issues relevant to the viability of the accounting profession. NASBA also makes available to member boards a rich portfolio of products and services - all designed to effectively aid Boards of Accountancy in their mission of ensuring public protection.

As an extension of NASBA's core mission, the NASBA Center for the Public Trust (CPT) continues to provide a platform for corporate America, academia and the accounting profession to explore, promote and advance

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ethical behavior through business and leadership.

This annual report illustrates the numerous ways in which NASBA continues to support Boards of Accountancy and build trust as a leader in the accounting profession. The report also provides stakeholders with insights into NASBA's leadership, member involvement, products and services and fiscal management.

LETTER FROM NASBA LEADERSHIP

NASBA's fiscal year 2019 faced its challenges, yet it provided tremendous opportunities to propel the Association forward as an increasingly relevant organization. We are pleased to report that, through strong governance and fiscal and operational management, we met and surpassed our strategic goals and initiatives while providing record amounts of mission spending in support of the Boards of Accountancy. Despite significant investments in software development and infrastructure improvements intended to serve our members, we improved NASBA's financial position.

We met significant challenges of operating with lower than anticipated candidate-related revenue, while also developing complex software tools, particularly the CPE Audit Service tool for state boards. NASBA's systems must be completely reliable and accurate while incorporating the differences and specific nuances of the 55 unique states and territories. Substantial progress was made this year in providing tools and systems for member boards to enhance their capability to enforce their statutes and rules to protect the public.

For the past two years, NASBA leadership has focused on the challenge of developing recommendations on how to best prepare for the evolution of the accounting profession, primarily the continued and increasing use and reliance on information technology. Our members have expressed the critical importance of having NASBA (working with Boards of Accountancy, the AICPA and other stakeholders) create a strategy that is feasible. As a result, a significant amount of resources and work by volunteers and staff have been expended in this effort. While we have seen progress in this area, the struggle has been to adequately educate and persuade users that some radical changes may be necessary to be successful.

The theme of this year's Annual Meeting is "Resolve." It is appropriate that the meeting is being held in Boston, MA, where our founding fathers had the resolve to hold the course and persevere to create this great nation in spite of tremendous obstacles and opposition. NASBA's leadership, represented by state boards from across the nation, has also shown resolve through our history. There was resistance to developing uniform accounting statutes, non-CPA ownership of firms, practice privilege mobility, computerization of the Uniform CPA Examination, and even the use of calculators by Examination candidates. Nonetheless, past leaders held the course to get us where we are today. At this year's Annual Meeting, we will continue discussions on these and other important issues impacting the regulation of the profession. For over a century, the U.S. model of state board regulation has successfully advanced the profession and charge of protecting the public. This year, we have seen an increasing amount of legislation that fundamentally weakens the foundation of our current system. Anti-Regulation legislation introduced around the country is designed to lower or eliminate the requirements of licensure to practice. The argument that education, testing and experience requirements present a barrier to ease employment and opportunity is typically the premise for many of the bills we have seen.

NASBA's Legislative Committee and staff have worked closely with the Boards of Accountancy, State CPA Societies and the AICPA to fend off attempts that jeopardize the integrity of the accounting profession and of strong public policy and protection. We have joined a coalition with other high-stake professions to form the Alliance for Responsible Professional Licensing (ARPL), which aims to educate legislators and policy makers of the importance of responsible licensing standards.

The importance of international relationships with institutes and regulators from around the globe has continued to escalate. This year, NASBA's leaders met with leaders from Canada and Mexico at the North American Summit. The International Qualification Appraisal Board (IQAB) has been busy evaluating the requirements for certification of international accountants and negotiating mutual recognition agreements (MRAs) to allow for reciprocal privileges across borders. As the business and economies of nations become more global, practical MRAs provide certified accountants the opportunity to gain privileges to accommodate their work. The relationships our leaders have developed on the international front continue to enhance the relevance of NASBA and state boards. We look forward to welcoming our international guests who will be participating in our Annual Meeting.

NASBA's ethics arm, the NASBA Center for the Public Trust (CPT) has experience unprecedented success this year. The number of StudentCPT chapters continues to grow, and the recently launched certification programs for students and professionals have been well received and continue to expand their footprint.

NASBA will end 2019 as a well-funded and increasingly relevant organization, dedicated to our mission: *"To enhance the effectiveness and advance the common interests of the Boards of Accountancy."* NASBA's dedicated volunteers and professional staff have achieved tremendous successes and achievements on behalf of state boards, which would not be possible without the continued support and trust you have placed in us. For that, we thank you!

Janice L. Llay

Janice L. Gray, CPA Chair, 2018-2019

Jon L. Bohop

Ken L. Bishop President & Chief Executive Officer

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Colleen K. Conrad, CPA Executive Vice President & Chief Operating Officer

From left to right: Colleen K. Conrad, Janice L. Gray and Ken. L. Bishop ť

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NASBA BOARD OF DIRECTORS

OFFICERS

Janice L. Gray, CPA Chair

Laurie J. Tish, CPA Vice Chair

Theodore W. Long, Jr., CPA Past Chair

> Jimmy E. Burkes, CPA Treasurer

> W. Michael Fritz, CPA Secretary

DIRECTORS-AT-LARGE

J. Coalter Baker, CPA Director-at-Large

A. Carlos Barrera, CPA Director-at-Large

Maria E. Caldwell, CPA Director-at-Large

John F. Dailey, Jr., CPA Director-at-Large

Sharon A. Jensen, CPA Director-at-Large

Richard N. Reisig, CPA Director-at-Large

Stephanie M. Saunders, CPA Director-at-Large

REGIONAL DIRECTORS

Catherine R. Allen, CPA Northeast Regional Director

Jack Anderson Bonner, Jr., CPA, CGMA Southeast Regional Director

> C. Jack Emmons, CPA, CFE Southwest Regional Director

Sheldon P. Holzman, CPA Great Lakes Regional Director

Faye D. Miller, CPA Central Regional Director

Nicola Neilon, CPA Mountain Regional Director

Katrina Salazar, CPA Pacific Regional Director

Michael H. Womble, CPA Middle Atlantic Regional Director

EXECUTIVE DIRECTORS' LIAISON Richard C. Carroll, Esq.

> PRESIDENT & CEO Ken L. Bishop



NASBA's BOARD OF DIRECTORS 2018-19 – Bottom Row (left to right): Richard N. Reisig (MT) Director-at-Large; W. Michael Fritz (OH) Director-at-Large; Theodore W. Long, Jr. (OH) Past Chair; Janice L. Gray (OK) Chair; Ken L. Bishop, President & CEO; Laurie J. Tish (WA) Vice Chair; Jimmy E. Burkes (MS) Director-at-Large; John F. Dailey, Jr. (NJ) Director-at-Large; Center Row (left to right): Noel L. Allen (NC) Outside Legal Counsel; Richard C. Carroll (KY) Executive Directors' Liaison; A. Carlos Barrera (TX) Director-at-Large; Joc Carroll (KY) Executive Directors' Liaison; A. Carlos Barrera (TX) Director-at-Large; Joc Carroll (KY) Executive Directors' Liaison; C. Carlos Barrera (TX) Director-at-Large; J. Coalter Baker (TX) Director-at-Large; Jack Anderson Bonner, Jr. (TN) Southeast Regional Director; Michael H. Womble (NC) Middle Atlantic Regional Director; Sheldon P. Holzman (IL) Great Lakes Regional Director; C. Jack Emmons (NM) Southwest Regional Director; Top Row (left to right): Faye D. Miller (ND) Central Regional Director; Stephanie M. Saunders (VA) Director-at-Large; Katrina Salazar (CA) Pacific Regional Director; Catherine R. Allen (NY) Northeast Regional Director; Nicola Neilon (NV) Mountain Regional Director; Maria E. Caldwell (FL) Director-at-Large; Colleen K. Conrad, Executive Vice President & COO. Not Shown: Sharon A. Jensen (MN) Director-at-Large.

STAFF DIRECTORS

Alfonzo Alexander	Chief Ethics and Diversity Officer & CPT President
Michael R. Bryant, CPA	Senior Vice President & Chief Financial Officer
Maria-Lisa Caldwell, Esq	Chief Legal Officer and Director, Compliance Services
Colleen K. Conrad, CPA	Executive Vice President & Chief Operating Officer
Shelly Crosby	Associate Director, Client Services
Lisa Dampf	Chief Human Resources Officer
Sandra Davidson, CPA	Chief Financial Officer, NASBA Center for the Public Trust
Louise Dratler Haberman	Vice President, Information & Research
Daniel J. Dustin, CPA	Vice President, State Board Relations
Cheryl Farrar	Chief Sourcing & Strategy Officer
Patricia Hartman	Director, Client Services
Wade A. Jewell	Director, NIES & President, Aequo
John W. Johnson	Director, Legislative & Governmental Affairs
Thomas G. Kenny	Chief Communications Officer
Jessica Luttrull, CPA	Associate Director, National Registry
Chris Mays	Associate Director, Client Services
Sheena Murphy, CPA	Director, CPA Exam Review Board
Sedrik Newbern	CPT Operations Director
Jeff Oliver	Chief Information Officer
James Polite	Associate Director, Program Management
Amy Tongate	Associate Director, CPE Services
Troy A. Walker, CPA	Director, Finance and Controller

VOICES IN THE ACCOUNTING WORLD

2018 - 2019 NASBA REPRESENTATIVES

SERVING ON REGULATORY BODIES & PROFESSIONAL ACCOUNTING ORGANIZATIONS

AICPA Accounting and Review Services Committee

James Burkes Tom Prothro (2019)

AICPA Auditing Standards Board

Jeanne Dee (2019) Gaylen Hansen

Tracy Harding (Vice Chair)

Alan Long Marcia Marien

Chad Singletary

AICPA Board of Examiners

Barry Berkowitz Allan Cohen James Corley (2019) Jeanne Dee David DeSilva James Gottfried (2019) Sheldon Holzman Kathy Smith (2019) Ola Smith Dan Sweetwood Michael Watts Thomas Weirich

AICPA Board of Examiners Content Subcommittees

Sara Mikuta (2019)

Faye Miller

Rebecca Phillips

Michael Watts

AICPA Board of Examiners State Board Committee

David DeSilva (Chair)

Kent Absec

Michael Barton

William Hunter Cook

Wendy Garvin (2019)

Nicole Kasin

Veloria Kelly

Michael Rollage

Katrina Salazar

AICPA National Peer Review Committee

James Gero (2019)

Mark Hobbs

Arthur Sparks

AICPA Peer Review Board Elizabeth Gantnier

AICPA Professional Ethics Executive Committee

J. Coalter Baker

A. Carlos Barrera

Sharon Jensen

Stephanie Saunders

Lawrence Wojcik (2019)

Financial Accounting Foundation

Diane Rubin (Vice Chair)

FASB Private Company Council

Richard Reisig

IAASB Consultative Advisory Group

Gaylen Hansen

IEASB Consultative Advisory Group

Dr. Raymond Johnson (Chair)

IESBA Consultative Advisory Group

Gaylen Hansen (Chair)

COMMITTEES

Regarded as a cornerstone of support within the organization, NASBA appoints more than 20 committees and task forces annually. Through the work of these groups, NASBA volunteers and staff address current and emerging issues affecting State Boards of Accountancy. Topics range from communications, ethics and diversity to legislative support and relations with member boards. On the following pages, the committees provide reports from their work during 2018-19.

Accountancy Licensee Database/CPAverify Committee Administration and Finance Committee Audit Committee Awards Committee Bylaws Committee CBT Administration Committee Communications Committee Compliance Assurance Committee CPA Examination Review Board Continuing Professional Education (CPE) Committee Diversity Committee Education Committee Enforcement Resources Committee Ethics Committee Executive Directors Committee International Qualifications Appraisal Board Legislative Support Committee Nominating Committee Past Chair Advisory Council Regulatory Response Committee Relations with Member Boards Committee Standard-Setting and Professional Trends Advisory Committee State Society Relations Committee Uniform Accountancy Act Committee

ACCOUNTANCY LICENSEE DATABASE/CPAVERIFY COMMITTEE

With the addition of Delaware later this year, 53 Boards of Accountancy will be participating in the ALD and sending licensee data feeds to the ALD and *CPAverify.org*. Of the remaining two, one (Utah) has already begun the implementation process and the Committee hopes to reengage with them this fiscal year to finalize the implementation process.

The Committee has continued to advise on decisions and guide new initiatives that support the Committee's vision. Highlights from this year's Committee activity include the following:

- The Committee began work on a review of the ALD Vision 2020 document.
- The ALD Non-Licensed Resident report was well-received by state boards and continues to receive requests. The Non-Licensed Resident report offers boards a report to discover CPAs and firms with business addresses in their state, that are not registered.
- NASBA continues to assist boards with publishing disciplinary data in ALD and CPAverify on behalf of boards that do not have another means to help them maintain substantial equivalency with California CPA mobility provisions.
- The ALD and CPAverify continue to offer a mechanism for disciplinary data to be published on the home state record for licensees who have received disciplinary action from another state under mobility provisions. Nevada is the first state to submit such data for publication.

The number of Boards of Accountancy that will be paritipating in ALD.



Delaware will become the next state to join the ALD. Serve as an advisory committee to support the ongoing operations of the Accountancy Licensee Database (ALD) and corresponding CPAverify resources and initiatives, as well as recommend additional appropriate uses of ALD/CPAverify data for state board consideration.

> Committee Members: J. Andy Bonner, Jr. (TN), Chair D. Boyd Busby (AL) Robert B. Dickerson (WY) R. Garth Ferrell (CO) Ross T. Johnson (TX) William T. Kelly (MS) Marianne Mickelson (IA) Michael E. Mixon (GA) Kenya Y. Watts (OH)

> > Staff Liaison: Maria L. Caldwell

ADMINISTRATION AND FINANCE COMMITTEE

Oversee and monitor the fiscal operations and investments of the Association.

Committee Members: Jimmy Burkes (MS), Chair Frederick Briggs, Jr. (NH) Tyrone Dickerson (VA) Lori Druse (NE) Thomas Prothro (TX) Laurie Tish (WA) Judy Wetherbee (TN)

> Staff Liaisons: Michael R. Bryant Troy A. Walker

The Administration and Finance Committee monitors and provides oversight of the fiscal operations of NASBA, the NASBA Center for the Public Trust and Aequo. Aequo is a wholly-owned, for profit subsidiary, which began operations in fiscal 2015. The NASBA Center for the Public Trust is a 501(c)(3) nonprofit entity of which NASBA is the sole member. It aligns strategically with NASBA's mission objective related to ethics programs. The Board of Directors relies on the Administration and Finance Committee in fulfilling its fiduciary responsibility to review the financial performance from operations and the use of resources for mission-focused activities. The Committee works with management and volunteer leadership to review financial policies, monitor financial performance and assess enterprise risk.

The Investment Committee, a subcommittee of the Administration & Finance Committee, reviews the return and risk characteristics of NASBA's short-term and long-term investments, evaluates the investment advisors' performance in managing the invested funds, and monitors compliance with the board-approved investment policy statement (IPS).

Operational and capital budgets, as approved by the Board of Directors for Fiscal 2019, were discussed with management at quarterly meetings, which included financial statement presentations. Through this process, the Committee analyzed variances from budget (particularly those related to less than expected examination test section revenues), reviewed Management's Discussion and Analysis of the differences, and monitored other fiscal matters such as the costs associated with the restructuring of NASBA's information technology services from an internal to an outsourced model.

AUDIT COMMITTEE

Oversee the Association's annual financial statement audit and the internal controls, and recommend to the Board of Directors the firm to perform the audit.

The Report of the Audit Committee, found on page 52, summarizes the activities of the Committee in discharging this responsibility.

Committee Members: Faye Miller (ND), Chair Timothy Egan (CT) C. Larry Elmore (TN) Michael Schmitz (ND) Randa Vernon (OK) Laurie Warwick (VA)

> Staff Liaisons: Michael R. Bryant Troy A. Walker

AWARDS COMMITTEE

The NASBA Awards Committee hosted its 2019 Call for Award Nominations April 25 - June 30, 2019. The Committee met on July 17 and 19, 2019, via conference call, to discuss the slate of nominees and select finalists to recommend to the NASBA Board of Directors for the William H. Van Rensselaer Public Service Award, the NASBA Distinguished Service Award and the Lorraine P. Sachs Standard of Excellence Award.

The 2019 award recipients are: Michael T. Daggett, CPA, of Arizona (William H. Van Rensselaer Public Service Award), Michael Weinshel, CPA, of Connecticut (NASBA Distinguished Service Award - posthumously) and James Corley, CPA of Arkansas (Lorraine P. Sachs Standard of Excellence Award).

Of additional note, the Committee proposed to NASBA President & CEO Ken L. Bishop the idea of acknowledging the recipient of NASBA's Ad Astra Award during the NASBA Annual Meeting. This award, first established by President Bishop in 2013, is named in honor of former NASBA President and CEO, David A. Costello, CPA, and is awarded annually to a NASBA employee who consistently advances the mission of NASBA and exemplifies the optimism, fun and vigor that David Costello embodies, as reflected in his motto, *"Ad astra... To the stars."*

NASBA will recognize each of these recipients during the 112th Annual Meeting in Boston, MA, October 27-30, 2019.



Michael Daggett



Michael Weinshel



James Corley

Recommend to the Board of Directors recipients of the Distinguished Service Award, William H. Van Rensselaer Public Service Award and Lorraine P. Sachs Standard of Excellence Award.

> Committee Members: Telford A. Lodden (IA), Chair Barry M. Berkowitz (PA) Robert B. Cagnassola (NJ) Harry O. Parsons (NV) E. Kent Smoll (KS) Susan L. Somers (KS)

> > Staff Liaison: Cassandra A. Gray

Review and consider best practices from various sources and recommend amendments to the Board of Directors for approval and subsequent vote by Member Boards.

> Committee Members: Katrina Salazar (CA), Chair Jon W. Cain (WV) Dawn M. Carlson (IL) Bobby R. Creech, Jr. (SC) Thomas J. Homer (IL) David S. Pummel (SD)

> > Staff Liaison: John W. Johnson

BYLAWS COMMITTEE

The NASBA Bylaws Committee developed an amendment to clarify the minimum qualifications for election as Members and Alternates on the Nominating Committee.



The proposed amendment would make it clearer that in order to qualify for election to the Nominating Committee; an individual must have experience that includes actually attending, in person, at least one Regional Meeting and at least one Annual Meeting. Given the increasing importance of the work of the Nominating Committee and the fact that in person attendance is required for significant Nominating Committee meetings, the Bylaws Committee believes that

it is important to explain the expectations for election to the Committee. The proposed amendment was approved by the NASBA Board of Directors for submission to the membership at the 2019 NASBA Annual Business Meeting.

CBT ADMINISTRATION COMMITTEE

Promote effective and efficient administration and operation of the Uniform CPA Examination.

> Committee Members: C. Jack Emmons (NM), Chair Robert N. Brooks (NC) Pamela Church (TN) Russ Friedewald (IL) James Gottfried (OH) Michael R. Putich (SC) David Sanford (GU) Leslie Schmitz (AK) David A. Skup (FL) Craig F. Smith (GA) Susan L. Somers (KS)

> > Staff Liaisons: Ed Barnicott Patricia Hartman

The Computer-Based Testing (CBT) Administration Committee met via conference call on January 22, 2019, to discuss the status of continuous testing, international expansion into India, candidates timing out in the introductory screens, banning cell phones and allowing candidates to use scratch paper rather than laminated cards. The Committee identified a task force to review and revise the policies and procedures manual for state boards.

Committee members met May 30, 2019, in Tampa, FL. Topics covered included an update on CPA Evolution and the joint NASBA/AICPA Working Group, continuous testing and exam administration. NASBA staff is working with boards to ensure the majority can allow continuous testing and the elimination of testing windows. The Committee discussed issues and problems encountered during the administration of the Examination and ways to reduce said issues and problems. Prometric staff provided an update on various pilot projects they are working to detect fraudulent activity.

ADMINISTRATION INDER EVENT TESTING EVOLUTION UNIFORM CPA EXAMINATION UNIFORM CPA EXAMINATION CONTINUOUS TESTING CANDIDATES UPDATE EXAM INTRODUCTORY SCREENS WORKING GROUP PROJECTS EXAM ADMINISTRATION ISSUES ACTIVITY





*Includes the Illinois Board of Examiners and the Illinois Department of Financial and Professional Regulation

The Communications Committee continued to educate member boards on emerging trends and communications best practices. To achieve this goal, the Committee hosted two State Board Communications Breakfast meetings during NASBA's 2019 Regional Meetings. The Committee also assessed the communications needs of each board and shared updates during regional conference calls, led by NASBA's regional directors. Through these efforts, state boards are more knowledgeable and equipped with strategies and resources to aid in their communication and outreach to licensees, CPA Examination candidates, academia, legislators, the public-at-large and other key stakeholder groups.

Additionally, the Committee continued to encourage Boards of Accountancy to participate in NASBA's Communications & Outreach program, which offers FREE creative services to member boards. Over the past year, NASBA's Communications Department has provided creative assistance to 45 Boards of Accountancy, producing more than 200 pieces of collateral material including digital newsletters, infographics, mass email communications and informational videos. The team has also provided consultation to boards interested in creating a presence on various social media platforms.

Additional details on NASBA's Communications & Outreach program, including a library and sample templates, are available on *nasba.org/outreach*.

Promote effective and efficient communication among Boards of Accountancy, NASBA and their respective stakeholders.

Committee Members: Sheldon P. Holzman (IL), Chair D. Brian Carson (VA) Manuel Cavazos (TX) Wanda W. Goodson (GA) Alison L. Houck (DE) Michael Huotte (MT) Robert M. McAdams (TX) Delbert Madison (AL) Leslie A. Mostow (MD) Bob Patterson (KY) Darla M. Saux (LA) Gerald Weinstein (OH)

> Staff Liaisons: Cassandra A. Gray Thomas G. Kenny

COMPLIANCE ASSURANCE COMMITTEE

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Promote effective oversight of practice quality of CPAs and their firms.

Committee Members: John F. Dailey, Jr. (NJ), Chair Ellen K. Adkins (SC) Sherry L. Chesser (AR) Elizabeth Gantnier (NC) Wendy S. Garvin (TN) James P. Gero (OH) Mark T. Hobbs (SC) Stephen F. Langowski (NY) Michael S. McClure (NE) Charles R. Prince (MS) Arthur L. Sparks, Jr. (TN) Jay Tolsma (SD) Viki A. Windfeldt (NV)

> Staff Liaison: Wade A. Jewell

CAC Report Acronyms

CAC: Compliance Assurance Committee

NPRC: National Peer Review Committee

> PRB: Peer Review Board

PROC: Peer Review Oversight Committee

> UAA: Uniform Accountancy Act

The Compliance Assurance Committee (CAC) met in September 2019, in Nashville, TN, with discussion topics including updates from the CAC's regulatory representative on the AICPA's Peer Review Board (PRB) and representatives of the AICPA's National Peer Review Committee (NPRC), the Model Rules pertaining to Peer Review, the AICPA's Chapter 3 rewrite of the Oversight Handbook entitled "Confidentiality of Peer Review Information in the Regulatory Environment" and an update on a joint meeting between the Nevada State Society (Administering Entity) and state boards within their peer review oversight. The CAC also presented an overview of the NASBA Peer Review website page, discussed benefits of past Peer Review Oversight Committee (PROC) summits, planned the next CAC/PROC conference call, and discussed other peer review topics of interest/substance.

Following the CAC meeting, the CAC hosted an annual joint meeting with the AICPA's PRB/Oversight Task Force (OTF). In addition to many of the topics discussed at the CAC meeting, joint meeting discussions included an update on the AICPA's Peer Review program by OTF members and AICPA staff.

Additionally, throughout the year, the CAC and/or NASBA staff:

- Hosted an open PROC/CAC conference call in November 2018
- Participated in a conference call in December 2018 to discuss the AICPA's Chapter 3 re-write
- Participated in several Executive Director Advisory Group calls to discuss the AICPA's Chapter 3 re-write
- Participated in AICPA PRB quarterly meetings via the CAC Peer Review Board (PRB) representative and committee liaison
- Participated in the NASBA Regional Meetings the CAC chair presented on Proposed Peer Review Model Rules
- Participated in a joint NASBA UAA/CAC Task Force to propose revisions to the Model Rules for Peer Review (for submission to the full NASBA UAA Committee)
- Participated in a NASBA UAA Committee meeting to discuss proposed changes to the Model Rules for Peer Review

CONTINUING PROFESSIONAL EDUCATION (CPE) COMMITTEE

On May 20, 2019, NASBA and the AICPA issued proposed revisions to the Statement on Standards for Continuing Professional Education (CPE) Programs (*Standards*) for public comment. The public comment period on the Exposure Draft of the proposed revisions closed August 31, 2019.

Last revised in 2016, among the most significant of the proposed revisions is allowing for adaptive learning self-study programs within the self-study *Standards* with references to the methodology to be used in determining the CPE credit for an adaptive learning program. The proposed *Standards* revisions also permit the use of review questions or other content reinforcement tools in a nano learning program. Additional clarifications have been made to assist in the understanding of awarding CPE credit in the different instructional delivery methods, in the minimum number of monitoring mechanisms required in a group internet based program in which fractional CPE credit is awarded, and in the solicitation of evaluations for larger programs and conferences.

The effective date of any final approved changes to the *Standards* is expected at the end of 2019.



The National Registry Summit was held September 24-25, 2019, in Indianapolis, IN. The purpose of the National Registry Summit is to provide Registry sponsors with information on trends in adult learning, emerging technologies and innovations in learning, and information and resources to assist in the implementation of the *Standards* in an environment that encourages sharing and networking. Sessions for the 2019 Summit included "brain-considerate" learning, exploring virtual reality in learning, the benefits of adaptive learning, using emotional intelligence to increase learner engagement, and the inaugural presentation of "Sponsor in the Spotlight." Develop and promote uniform rules and requirements for continuing professional education among the jurisdictions. Also, oversee the Standards for CPE Programs and the related CPE Standards Working Group.

> Committee Members: A. Carlos Barrera (TX), Chair Gerald E. Denor (WI) Arthur E. Flach (MD) Donna J. Hugly (TX) Lynn V. Hutchinson (LA) Nicole Kasin (SD) John McManus (DE) Aaron E. Olson (IA) Roxanne P. Ostlund (WY) Angela L. Pannell (MS) Joshua W. Partlow (VT) Willie B. Sims, Jr. (MS)

> > Staff Liaison: Jessica Luttrull

CPA EXAMINATION REVIEW BOARD

Review, evaluate and report on the appropriateness of the policies and procedures utilized in the preparation, grading and administration of the Uniform CPA Examination and other examinations in general use by Boards of Accountancy for the licensing of certified public accountants; examine such records, and make observations, inspections and inquiries as it deems necessary; and report annually to the Boards of Accountancy.

> Committee Members: Barbara A. Ley (OK), Chair Doug Skiles (NE), Vice Chair Janet Booker-Davis (TN) Ruben A. Davila (CA) Marianne DeVries (AZ)

> > Consultants: Michael W. Harnish Suzanne Lane

Staff Liaison: Sheena Murphy The ERB reviewed and evaluated the policies and procedures utilized in the preparation, grading and administration of the Uniform CPA Examination and the International Qualification Examination for the year ended December 31, 2018. The ERB's review and evaluations were conducted for



the purpose of determining the appropriateness of those policies and procedures for reliance by the Boards of Accountancy of the 55 U.S. jurisdictions in discharging their responsibility to test the qualifications of candidates for licensure as Certified Public Accountants. The ERB issued its Annual Report to the Boards of Accountancy of the 55 U.S. jurisdictions at the NASBA Regional Meetings in June 2019, for the work performed during the 2018 calendar year. The ERB stated the results of the 2018 review in its report: "Based on our review and evaluations, we believe that the Boards of Accountancy may rely on the Uniform CPA Examination and the International Qualification Examination in carrying out their licensing responsibilities for the year ended December 31, 2018." Additionally, the ERB presented a comprehensive management letter to the chairman and Board of Directors of NASBA and the management of NASBA, AICPA and Prometric, which included recommendations that could enhance future examinations.

Few Boards of Accountancy have the resources to evaluate the psychometric quality and content of a licensing examination or to review its preparation, scoring and administration. Moreover, few Boards of Accountancy have the resources to evaluate the security and integrity of the electronic architecture and data communications surrounding a computer-based test (CBT). Because such evaluations and reviews are highly technical and time-consuming activities, they can be performed more effectively by a single agency acting on behalf of all Boards of Accountancy. Recognizing this need, the CPA Examination Review Board (ERB) was established as a committee of NASBA and reports directly to the Boards of Accountancy.

DIVERSITY COMMITTEE

The NASBA Diversity Committee had another active year. During its initial meeting, the Committee reaffirmed its objectives and focus areas, based on the Committee's charge. The Committee prioritized its efforts to focus first on the diversity of Boards of Accountancy (BOA) and secondly on the pipeline of diverse candidates entering the profession.

The Committee obtained information from State Board of Accountancy staff and State CPA Society executives to assist with understanding the current demographics of the state boards. In doing so, the Committee developed a list of jurisdictions with the most opportunity to grow diversity. This effort is assisting the Committee's work to help increase the level of diversity within Boards of Accountancy.

The Committee also launched a new program, the Diverse BOA Member Profiles. This program is a series of video interviews with diverse state board members telling their stories and encouraging others to consider board service to help protect the public.

Other activities of the Committee included building upon relationships with women and ethnic minority groups, supporting the PhD Project and other initiatives focused on building the pipeline of diverse talent entering the CPA profession.

Additionally, the Committee again reached out to new Board of Accountancy members from across the country to encourage their involvement in NASBA.

Develop a diversity program that ensures NASBA provides opportunities, encouragement and support to people of color (African-Americans and Hispanics/Latinos) and women to participate in NASBA service and leadership roles.

> Committee Members: Maria E. Caldwell (FL), Chair Angela L. Avant (DC) Donald H. Burkett (SC) Kerry Eaton (NV) Michael M. Guinigundo (OH) Rhonda Kodjayan (IL) Chandra Lalvani (PA) Carola A. Nicholson (CA)

> > Staff Liaison: Alfonzo Alexander

EDUCATION COMMITTEE

Support the Boards of Accountancy by representing NASBA in the academic community and serving as an advisory resource on education matters related to the accounting profession.

> **Committee Members:** Stephanie M. Saunders (VA), Chair Charles Alvis (SC) Michael Barton (IN) Margaret Combs (KY) Susan Quaintance Ferguson (VA) Kevin M. Fountain (RI) Raymond N. Johnson (OR) Carlos E. Johnson (OK) Jason D. Peery (ID) Simon Petravick (IL) loe Shoemaker (NH) Sandra A. Suran (OR) Michael M. Watts (AR)

> > Staff Liaison: Wade A. Jewell

The Education Committee met in Nashville, TN, in January 2019, with discussion topics including the CPA pipeline, data analytics - education requirements, 120 vs. 150 hours, the AACSB and other accrediting organizations, credit for life experiences, the Accounting Education Research Grants process, and the IAESB Exposure Draft on Proposed Revisions to IESs 2, 3, 4 and 8 (Information and Communications Technologies and Professional Skepticism).

For numerous topics, to include the CPA pipeline, data analytics and 120 vs. 150 hours, the Education Committee will follow up after reports from both the CPA Evolution Working Group and the Education Task Force are issued/presented.

The Committee prepared a draft response to the IAESB Exposure Draft and provided it to the Regulatory Response Committee as requested.

The Committee also selected the 2019 recipients for NASBA's Accounting Education Research Grants. This year's recipients were: Hannah Rozen and Dierdre Collier from Fairleigh Dickinson University, and Alexander Sannella from Rutgers University, for their project titled, "Why Master's in Accounting Students Do Not Sit for the CPA: Determinants and Perceptions of CPA Value"; lason Stanfield and Kelsey Brasel from Ball State University, and Heather Carrasco from Texas Tech University, for their project titled, "What Accounting Program and Curriculum Features Influence the Likelihood of Graduates Attempting the Uniform CPA Exam?"; and Linda Quick, Denise Dickins and Rachel Hull from East Carolina University for their project titled, "Most Effective Study Methods for High-Stakes Tests: The CPA Exam."

Education research grant recipients from 2018 presented their projects and workto-date to attendees of the 2019 NASBA Regional Meetings.

The Education Committee will continue discussions regarding the AACSB, other accrediting organizations and credit for life experiences.

Accounting Education Research Grants

\$25,000 2019 Accounting Education Research Grants Limit

34 U.S. Institutions Represented by Academic Research Winners

\$150,000+ Total Grants Awarded Since the Program's Launch in 2011



Total Years NASBA Awarded Grants

ENFORCEMENT RESOURCES COMMITTEE

Chair Michael H. Womble led the Enforcement Resources Committee in realizing its charge to promote effective, efficient and uniform enforcement of professional standards by Boards of Accountancy.

The Committee worked diligently to complete the Board Counsel Boot Camp project this year. Created for new Board Counsel members, the Committee aimed to address the large learning curve involved in becoming an effective regulatory attorney for a State Board of Accountancy. Due to lack of resources, often state boards or their agencies provide little to no training for their legal counsel on administrative regulation or training specific to the accounting profession. Drafts of the Board Counsel Boot Camp materials were edited and finalized by Committee members. Board Counsel Boot Camp materials have since been utilized in the New Board Member Orientation materials at the Regional Meetings and will be included in a separate session at the upcoming Executive Directors and Legal Counsel Conferences. The Committee intends that this resource will eventually become an interactive tool with on-demand videos and presentations, which will be available on the NASBA website.

NASBA continues to actively promote the Investigator and Expert Witness Pools through state board newsletters and through NASBA publications. The Committee put forth advertising efforts at the recent Executive Directors and Legal Counsel Conferences by displaying pertinent information during breaks on PowerPoint slides. Additionally, an advertisement was placed in the electronic binder that is distributed to all conference attendees.

A new task force was created in May to head up the enhancement and updating of the materials, guides and example forms located on the Enforcement Tools page of *nasba.org*. The task force reviewed the existing materials and prioritized which items needed the most attention. The task force is actively working to add more examples of disciplinary scenarios from other jurisdictions and to add more examples on the utilization of tools and technology in pursuing disciplinary matters. Future projects include adding penalty examples, updating example complaint forms and updating the best practices.

Timely distribution of the *Quarterly Enforcement Report* continued, with positive reception by boards seeking a consolidated source of agency enforcement actions for board consideration. The additional benefit of increased transparency across jurisdictions continues to support the Committee's goals of consumer protection and efficient enforcement of professional standards.

Enforcement Tools Available



- Investigator Training Series
- Federal Agency Series
- Enforcement Newsletter
- PTIN lists
- Quarterly Enforcement Reports
- Enforcement Resources Guide

Boards and federal agencies are encouraged to provide EINs, PTINs and other data in their ALD feed to improve digital cross-referencing among agencies.

Promote effective, efficient, and, where appropriate, uniform enforcement of professional standards by Boards of Accountancy.

Committee Members: Michael H. Womble (NC), Chair James Bayson (MI) William R. Brown (VA) Louis J. Costanzo (WV) D. Jae Hallett (ID) John R. Helms (KS) Roselyn E. Morris (TX) John W. Roberts (HI) Emily R. Rollins (TX) Richard Silverman (NH) Dan Sweetwood (NE) Patrick M. Thorne (NV)

> Staff Liaisons: Maria L. Caldwell Elizabeth Wolfe

ETHICS COMMITTEE

Promote the development and maintenance of highquality standards of ethical practice to protect the public interest. Provide input related to changes or developments in ethics-related standards.

> Committee Members: Catherine R. Allen (NY), Chair David I. Bridgers, Jr. (MS) Wm. Hunter Cook (NC) Robert F. Fay (OH) Robert L. Goldfarb (NY) James G. Kelley (IL) Andrea M. Kilmer (VA) Thomas G. Neill (WA) Michael L. Nickerson (ME) Steven M. Platau (FL) Lydia M. Washington (NY) Lawrence A. Wojcik (IL)

> > Staff Liaison: Ed Barnicott

The Ethics Committee met in person in January and several times by conference call to discuss exposure drafts issued by IESBA and PEEC. Subjects covered included:

Source	Exposure Draft	Received	Comments Due
PEEC	Staff Augmentation Arrangements Interpretation (ET Sec.1.295.157)	12/7/18	3/7/19
PEEC	State and Local Government Client Affiliates	1/15/19	3/11/19
IESBA	Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants	7/31/19	10/31/19

Additionally, the Committee did an in-depth review of activities and progress related to the adoption of the AICPA Code of Professional Conduct. Each state was evaluated for its status in adopting the code. This work is ongoing and will carry over to the new committee year.

Sadly, the Committee noted the passing of one of its members, Michael Weinshel. Michael was a strong contributor to the work of the Boards of Accountancy and possessed a generous heart demonstrated by his volunteer work on behalf of U.S. military serving in the Mideast. He is missed.

EXECUTIVE DIRECTORS COMMITTEE

The Executive Directors Committee represents the executive directors of the 55 U.S. Boards of Accountancy and serves as a means of outreach to the executive directors. The Committee was responsible for coordinating the 37th Annual Conference for Executive Directors and Board Staff, which was held in San Antonio, TX, in March 2019. In continuing efforts to build relationships and in conjunction with the State Society Relations Committee, joint sessions were held with State Society CEOs and presidents. In addition, several sessions were held in conjunction with the 25th Annual Conference for Board of Accountancy Legal Counsel attendees. The conference held discussion on topics covering Peer Review, Uniform CPA Examination, CPE Audit, Legislative Updates, Legal Cases and other issues impacting the profession, Ethics, Cyber Secuirty, Transcript Evaluations, and Testing Accommodations.

The Committee met via conference call in January and February 2019 as part of conference planning. The Committee met in San Antonio, TX, prior to and following the conference to discuss topics for breakout sessions and to review feedback from conference attendees.

Committee members met with executive directors during NASBA's Regional Meetings to discuss Staff Augmentation, CPA Evolution, Legislation eliminating the "good moral conduct" restriction and moving forward to offer continuous testing.

The Committee met in Salt Lake City, UT, in June 2019 to begin planning for the 38th Annual Conference for Executive Directors and Board Staff and to discuss feedback from the Regional Meetings.

Support Executive Directors in their roles with Boards of Accountancy.

Committee Members: Richard C. Carroll (KY), Chair Kent Absec (ID) Grace Berger (MT) Thomas DeGroodt (MO) Jovonna Bennett (RI) Randall A. Ross (OK) Charles Satterlund (WA) Brenda Turley (WV)

> Staff Liaisons: Daniel J. Dustin Patricia Hartman

INTERNATIONAL QUALIFICATIONS APPRAISAL BOARDCOMMITTEE

IQAB Chair Sharon Jensen held two face-to-face meetings this year with the NASBA/AICPA International Qualifications Appraisal Board (IQAB), one in Dallas, TX, on May 6 and the other in Denver, CO, on September 13. In addition, many task force conference calls were held, several with professional associations' representatives from outside the United States.

A mutual recognition agreement with the South African Institute of Chartered Accountants (SAICA) is ready to be voted on by the NASBA and AICPA Boards of Directors this fall. This task force had been led by Jeffrey Truitt. Early in 2020, a mutual recognition agreement with the Institute of Chartered Accountants of England and Wales (ICAEW) is also anticipated. This task force is being led by William Treacy.

Some Boards of Accountancy automatically adopt all of the agreements developed by NASBA, others need to adopt each agreement for it to apply in their jurisdiction.

A task force led by Telford Lodden is reviewing the renewal of the mutual recognition agreement with the Hong Kong Institute of CPAs, due to expire in December 2019.

Formats for letters of good standing, required from partnering credentialing organizations for their candidates to be eligible to take IQEX, have been developed by IQAB staff and are being reviewed by those organizations.

This year, Chair Jensen assigned a task force to make a careful study of how the REG Section of the Uniform CPA Examination is meeting the requirements for IQEX, as regularly requested by the CPA Examination Review Board. Professor Martin Fennema has led this task force.

Credentialing bodies in other countries have requested consideration for mutual recognition agreements. Although no new evaluations were undertaken this year as the agreements with SAICA and ICAEW and the renewal of the agreement the Hong Kong Institute of CPAs were still being worked on, it is anticipated IQAB will begin to study other credentials this year. As directed by the Executive Committee, survey and assess professional practice standards and qualifications in specified countries and recommend the feasibility of recognition of credentialed non-US professionals to the Board of Directors.

> Committee Members: Sharon A. Jensen (MN) , Chair Martin G. Fennema (FL) Telford A. Lodden (IA) Wendy S. Perez (CA) William Treacy (TX) Jeffrey J. Truitt (NC)

Staff Liaisons: Louise Dratler Haberman Patricia Hartman

LEGISLATIVE SUPPORT COMMITTEE

Develop legislative support strategies and tactics to assist the Director of Legislative and Governmental Affairs in supporting Boards of Accountancy on legislative matters.

> Committee Members: Nicola Neilon (NV), Chair Marja Beltrami (AK) James Corley (AR) Julian I. Deal (GA) Joseph S. Drew (DC) Margaret Ann Gilmore (OH) Brian L. Johnson (SC) Nick Myers (MO) Mark S. Robinson (MA) Andy L. Wright (MS)

> > Staff Liaison: John W. Johnson

The Department of Legislative and Governmental Affairs identifies and monitors legislation through NASBA's Legislative Tracking System. This system allows boards and NASBA to become more readily aware of key pieces of legislation and executive order around the country, which could greatly impact their regulatory capacity. During the 2019 legislative session, of the 2,331 bills monitored, 599 of those bills had a direct impact on the regulation of the accounting profession.

In addition to remaining current on legislation, executive orders and other regulatory activity impacting the accounting profession, it is equally important to establish a strong internal network program that can proactively and positively influence governmental affairs, in general and when important legislation/executive orders are identified. To accomplish this task, NASBA's Department of Legislative and Governmental Affairs established a Key Person Contact (KPC) Program, which serves as a nexus for transmitting information to government officials and reporting information about proposed or pending legislation/regulatory changes to NASBA.

The Legislative Support Committee believes awareness is pivotal to regularly inform boards on issues impacting the profession, through NASBA's *Legislative E-News*, content provided on the Legislative Support page at *nasba.org* and conferences.

Anti-regulatory organizations continue to develop and promote federal and state legislation designed to eliminate occupational licensing or, at minimum, significantly reduce regulations and oversight. Such efforts, if successful, could be severely detrimental to the protection of the public as they include the accounting profession. A formal internal strategy, made up of accountancy stakeholders, was formed jointly by NASBA and AICPA legislative teams, to combat this anti-regulatory groundswell.

In addition to the internal strategy, NASBA is a member of the Alliance for Responsible Professional Licensing (ARPL) – a coalition of national associations that represents highly complex, technical professions and their national licensing boards. ARPL has been created to ensure that a unified voice for the advanced professions is present and heard in the growing debate around the appropriate level of licensure for professions and occupations.

NOMINATING COMMITTEE

The work of the Nominating Committee has been carried out in accordance with Article VII, Sections 7.2 and 7.3, and Article IV, Section 4.5, of NASBA's Bylaws.

The 2018-2019 Nominating Committee has nominated the following officers and directors to be voted on by the member boards at the Annual Business Meeting, in October, in Boston, MA:

Vice Chair: A. Carlos Barrera (TX - Associate)
Directors-at-Large (three-year term):
Catherine R. Allen (NY - Delegate) (first term)
Tyrone E. Dickerson (VA - Associate) (first term)
Richard N. Reisig (MT - Associate) (first term)
Regional Directors (one-year term), a Regional Director may serve three one-year terms:
C. Jack Emmons (NM - Delegate) - Southwest (third term)
Jack A. Bonner (TN - Delegate) - Southeast (second term)
Alison D. Houck (DE - Delegate) - Middle Atlantic (first term)
Stephen F. Langowski (NY - Delegate) - Northeast (first term)
Kenya Y. Watts (OH - Delegate) - Great Lakes (first term)
Katrina Salazar* (CA - Delegate) - Pacific (second term)
Jason D. Peery (ID - Delegate) - Mountain (first term)
Faye D. Miller (ND - Delegate) - Central (second term)

*Ms. Salazar was first elected in January 2018 to fill an unexpired term.

The following Board Members will continue to serve for the balance of their unexpired terms. Atlarge directors may serve two three-year terms. For purposes of Bylaw Section 4.5.7 compliance, an At-large director's status as a delegate or associate is based upon their status within sixmonths of when elected.

Directors-at-Large (third year of three-year term):	
W. Michael Fritz (OH - Associate) (first term)	
L Coalter Baker (TX - Delegate) (first term)	

Maria E. Caldwell (FL - Associate) (first term)

Directors-at-Large (second year of three-year term)

Sharon A. Jensen (MN - Delegate) (first term)

Stephanie M. Saunders (VA - Delegate) (first term)

TBD by the BOD after the Annual Meeting (first term)

Laurie J. Tish (WA - Delegate) - Ms. Tish, 2018-19 Vice Chair, will accede to office of chair.

Janice L. Gray (OK - Associate) - Ms. Gray accedes to office of past chair upon the installation of Ms. Tish as chair.

Nominate officers and directors, in accordance with NASBA's Bylaws.

Committee Members: Theodore W. Long, Jr. (OH), Chair

> Holly Brunick (SD) Alternate Central Region

James P. Gero (OH) Alternate Great Lakes Region

Barton W. Baldwin (NC) Alternate Middle Atlantic Region

Harry O. Parsons (NV) Alternate Mountain Region

Tracy Harding (ME) Alternate Northeast Region

Thomas T. Ueno (HI) Alternate Pacific Region

David L. Dennis (FL) Alternate Southeast Region

Thomas G. Prothro (TX) Alternate Southwest Region

Michele M. Stromp (NE), Central Region

Barry M. Berkowitz (PA) Great Lakes Region

Marc Moyers (VA) Middle Atlantic Region

Karen Forrest Turner (CO) Mountain Region

Frederick G. Briggs, Jr. (NH) Northeast Region

Raymond N. Johnson (OR), Pacific Region

Willie B. Sims, Jr. (MS) Southeast Region

Barbara A. Ley (OK) Southwest Region

> Staff Liaisons: Ken L. Bishop Anita Holt

PAST CHAIR ADVISORY COUNCIL

Provide background and counsel on current issues framed with a historical perspective.

Committee Members: Theodore W. Long, Jr. (OH), Chair Billy M. Atkinson (TX) Barton W. Baldwin (NC) Milton Brown (NJ) Donald H. Burkett (SC) K. Michael Conaway (TX) Samuel K. Cotterell (ID) Michael T. Daggett (AZ) Walter C. Davenport (NC) Albert J. Derbes, III (LA) Robert C. Ellyson (FL) Welling W. Fruehauf (PA) Nathan T. Garrett (NC) John M. Greene (SC) Gaylen R. Hansen (CO) Mark P. Harris (LA) Thomas lino (CA) Carlos E. Johnson (OK) Wesley P. Johnson (MD) Telford A. Lodden (IA) Andrew P. Marincovich (CA) John B. Peace (AR) Diane M. Rubin (CA) Ronnie Rudd (TX) Thomas J. Sadler (WA) Jerome A. Schine (FL) Dennis P. Spackman (UT) Sandra A. Suran (OR) David A. Vaudt (CT) Michael D. Weatherwax (CO)

> Staff Liaison: Colleen K. Conrad

In conjunction with NASBA's 2018 Annual Meeting in Phoenix, AZ, the Past Chair Advisory Council convened to discuss trending issues and updates pertaining to NASBA and the accounting profession. Topics covered included the CPA Evolution initiative, significant legislative efforts and antiregulatory trends, NASBA IT projects, recent NASBA office moves in New York, NY, and Guam, and the meeting space buildout in Nashville, TN. In addition, the Council learned about substantial international activity including new MRAs with Ireland and CPA Australia, plus the expansion of CPA Examination testing into the European Union. A Washington Hill update was shared by NASBA Past Chair and Congressman Michael Conaway (TX) and standard-setting updates were provided by numerous other past chairs who remain active domestically and internationally in the accounting profession.









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REGULATORY RESPONSE COMMITTEE

Working with other NASBA Committees, including the Standard Setting and Professional Trends Advisory Committee and the Ethics Committee, the Regulatory Response Committee drafted, reviewed and/or vetted comment letters on the following exposure drafts:

Source	Торіс	Date Replied
AICPA	Statement on Standards for Forensic Services	2/6/19
IAESB	Proposed Revisions to IESs 2,3,4 and 8	2/6/19
PEEC	Staff Augmentation Arrangements Interpretation	2/25/19
PEEC	Staff and Local Government Client Affiliates	2/26/19
IAASB	Proposed International Standards on Related Services 4400 (Revised)	3/7/19
IAASB	Extended External Reporting Assurance Consultation Paper	6/19/19
IAASB	Explanatory Memorandum on Exposure Drafts for Quality Management	6/28/19
IAASB	Proposed International Standard on Auditing 220 (Revised)	6/28/19
IAASB	Proposed International Standard on Quality Management 1	6/28/19
IAASB	Proposed International Standard on Quality Management 2	6/28/19
SEC	Amendments to Accelerated Filer and Large Accelerated Filer Definitions	7/23/19
ASB	Amendments to Description of the Concept of Materiality	7/23/19
ARSC	Materiality in a Review of Financial Statements	9/17/19

Committee Chair Mike Fritz led a face-to-face Committee meeting on May 9 in Nashville, TN, held multiple conference calls and electronically requested many careful reviews of the Committee's work in progress. The regional directors were invited to participate in all the Committee's conference calls and the NASBA Board has been afforded a critical final review of all letters signed by Chair Janice L. Gray and President and CEO Ken L. Bishop prior to the letters' submission to the originating organizations. Provide timely proposed responses on professional practice developments by either developing responses or reviewing the suggested responses from other NASBA committees.

> Committee Members: W. Michael Fritz (OH), Chair Alan R. Augenstein (AZ) Kevin Collins (CO) David L. Dennis (FL) David D. Duree (TX) Gaylen R. Hansen (CO) Tracy Harding (ME) Matthew J. Howell (MI) Richard Isserman (NY) Sara J. Mikuta (IL) John H. Schuyler (CT) L. Samuel Williams, Jr. (NC) Carleton L. Williams (HI)

Staff Liaisons: Louise Dratler Haberman Jessica Luttrull

RELATIONS WITH MEMBER BOARDS COMMITTEE

Provide reciprocal communication between Boards of Accountancy and NASBA Board of Directors.

> Committee Members: Nicola Neilon (NV), Chair Mountain Regional Director

Catherine R. Allen (NY) Northeast Regional Director

Andy Bonner (TN) Southeast Regional Director

C. Jack Emmons (NM) Southwest Regional Director

Sheldon P. Holzman (IL) Great Lakes Regional Director

Faye D. Miller (ND) Central Regional Director

Katrina Salazar (CA) Pacific Regional Director

Michael H. Womble (NC) Middle Atlantic Regional Director

Richard Carroll (KY) Executive Directors' Liaison

Staff Liaisons: Daniel J. Dustin Louise Dratler Haberman Meeting prior to each Board of Directors' meeting and the Regional Meetings, the regional directors also moderated the June 2019 Regional Meeting, New State Board Member Orientation Sessions and Regional Conference Calls, this year, as well as visited several State Boards of Accountancy meetings in coordination with Vice President, State Board Relations Daniel J. Dustin's meetings with state boards. The regional directors also participated in the Regulatory Response Committee's conference calls.

Through the regional directors' conversations with their boards, the CPA Evolution Task Force has received significant input from the jurisdictions. These comments have aided the Task Force in fine tuning guiding principles for their next steps.

The Committee discussed topics for meetings' presentations and focus questions for the state boards to address. They have considered ways to make meeting evaluations more meaningful and to increase state board participation in NASBA. As they continued to ask the boards to address focus questions throughout the year, Chair Nicola Neilon has requested the regional directors pose questions that will provide added guidance for NASBA's activities.

Each regional director held two regional conference calls with their respective board chairs and executive directors. These calls gave neighboring jurisdictions an opportunity to share common concerns, as well as to receive information on their Region's legislative trends from Director of Legislative and Governmental Affairs John W. Johnson and Vice President Dustin.

STANDARD-SETTING AND PROFESSIONAL TRENDS ADVISORY COMMITTEE

Formerly known as the Standard-Setting Advisory Committee, the Standard-Setting and Professional Trends Advisory Committee took on the additional responsibility of monitoring possible disruptive trends in the accounting profession during Fiscal Year 2019. The Committee began monitoring the profession, publications and initiatives for trends that could have impact on the regulation of the profession by Boards of Accountancy as well as their ability to conduct investigations and proceed with enforcement actions. Ideas for how to communicate such trends with the Boards of Accountancy at NASBA meetings, via the website, through newsletters and using videos were developed.

In addition, the Committee discussed and provided input to leadership on the CPA Evolution initiative underway with NASBA and the AICPA, including additional input on the draft Guiding Principles.

The Best Practices in Standard-Setting Matrix maintained by this Committee was updated for additional standard-setters and modified as appropriate for changes in practices. Meetings were arranged with certain standard-setters to discuss suggested enhancements. Regulatory flowcharts prepared by the SEC were also considered and recommended changes provided.

The Committee reviewed the AICPA Auditing Standards Board Audit Evidence Exposure Draft and provided draft responses for the Regulatory Response Committee's consideration. Monitor and objectively evaluate processes of standard setters, as well as disruptive trends in the profession, on behalf of Boards of Accountancy. Recommend process improvements, when warranted, and advise the Boards of potential disruptive trends impacting the regulation of the profession.

> Committee Members: Richard N. Reisig (MT), Chair Billy M. Atkinson (TX) Barton W. Baldwin (NC) Scott Dockins (ID) Keri A. Ellis (PA) Gaylen R. Hansen (CO) G. Alan Long (KY) Michael P. Rollage (PA)

> > Staff Liaisons: Colleen K. Conrad Jessica Luttrull

STATE SOCIETY RELATIONS COMMITTEE

Provide state societies a platform to inform boards and NASBA about issues of importance to the regulation of the profession, and enhancing board relations with state societies.

> Committee Members: Stephanie Peters (VA), Chair Joanne S. Barry (NY) Jeannine Birmingham (AL) Mike Colgan (PA) Ronald A. Gitz, II (LA) Blaine M. Peterson (OK) Kimberly Scott (WA) Susan A. Speirs (UT)

> > Staff Liaison: John W. Johnson

NASBA believes that fostering greater dialogue and collaboration between Boards of Accountancy, State CPA Societies and NASBA is essential to ensuring effective relations and advancing the common interests of the public and the profession. In working toward that goal, the State Society Relations Committee focused on the following initiatives in 2018-19:

- Anti-Regulation Legislation Over the last several years, and since the North Carolina Dental decision, there has been a concerted effort by various antiregulatory forces to limit, and in some cases dismantle, the state-based regulatory system for professions and occupations. At a time when the validity of an effective state-based regulatory system is being questioned, the State Society Relations Committee has taken an active role to assist with their preservation.
- CPA Pipeline NASBA leadership regards the CPA pipeline as having a strong public protection nexus and has begun the process of working with State CPA Societies to strengthen the pipeline – both in number of CPAs entering the profession and the diversity represented by them.
- Diversity The Committee continued to work with NASBA's Diversity Committee and those responsible for making board appointments to ensure that appointments include not only women and minorities, but also individuals with diverse skill sets, from a range of firm sizes, to individuals who hail from various geographic locations within their jurisdiction, and other components that foster a multicultural board.
- Joint State Society CEO/State Board Executive Directors Conference NASBA's Executive Directors Committee invited the State CPA Society CEOs to attend two, half-day joint sessions during its 37th Annual Conference for Executive Directors and Board Staff. The 2019 conference brought together, for the fifth year in a row, state board executive directors and state society CEOs to participate in more than 10 sessions that covered matters of mutual interest/concern, future opportunities for collaboration and enhanced communications. In anticipation of the conference, NASBA's State Society Relations Committee worked closely with NASBA's Executive Directors Committee to develop an exciting agenda. Presentation and discussion topics included but were not limited to: Legal Cases Impacting the Profession; Peer Review Administration; Joint Legislative Update; and Uniform CPA Examination Update.

Overall, the work accomplished by the Committee and the work to come will not only foster greater collaboration between Boards of Accountancy, State CPA Societies and NASBA, but it will also assist John W. Johnson, Director of Legislative and Governmental Affairs, when consulting with Boards of Accountancy regarding their legislative strategies.

UNIFORM ACCOUNTANCY ACT COMMITTEE

This has been a very busy year for the UAA Committee as several task forces have been at work on four major projects. The joint committee did not have a face-to-face meeting, but task forces did meet in Nashville, TN, New York, NY, and Washington, DC.

Adoption of Amendment to Allow for Continuous Testing:

Working with a recommendation from the CBT Advisory Committee, the UAA Committee shepherded the adoption of a change in the Model Rules to enable states to offer continuous testing when a sufficient number of jurisdictions are able to do so. The Board of Directors voted to approve this change in January 2019.

Revision of Model Rules Relating to Peer Review:

Coordinating efforts with members of the Compliance Assurance Committee, the UAA Committee collected comments on the proposed revisions to Section 7 of the Model Rules to provide needed updates. The extensively revised Model Rules were distributed in January 2019 with the exposure period concluding at the end of June 2019. UAA Committee Chair J. Coalter Baker and Committee Members Andrew DuBoff and Dan Vuckovich worked with Compliance Assurance Committee Chair John Dailey, CAC member Stephen Langowski, NASBA Chair Janice L. Gray and staff to revise the proposed rules based on the comments received. The NASBA UAA Committee will vote on the final version of the revised rules and it is anticipated will bring them to the October 2019 NASBA Board of Directors for approval. The Rules would then be distributed to the state boards for their consideration and implementation.

Considers Additional Attest Experience Requirement

Progress is being made by a task force focused on creating a requirement that firms have individuals signing reports only if they have obtained significant current audit experience beyond the one-year experience requirement for licensure. The task force is co-chaired by Stephanie Saunders (NASBA) and John Pridnia (AICPA) with UAA Committee Members John Patterson and Donovan Rulien. Drawing strong evidentiary support from findings of studies performed in conjunction with the AICPA Audit Quality Improvement Initiative, it is anticipated this effort will be moving forward.

Responding to NOCLAR

The UAA Committee is seeking to find a pathway for public protection in cases where the CPA's client knowingly is not complying with laws and regulations (NOCLAR), while protecting the CPA from risking his/her career for violation of professional standards and liability. Progress with international adoption of the International Accounting Ethics Standards Board's NOCLAR interpretation is being monitored and a joint task force with the AICPA Peer Review Executive Committee is working to align efforts. A recommendation is being made to the Auditing Standards Board to place this topic on their agenda for possible action as well.

Future Projects

It is anticipated the UAA Committee will be considering other amendments as the CPA Evolution Task Force makes recommendations for changes in education and examination for licensure.

Oversee the Uniform Accountancy Act and related Model Rules and recommend amendments to the Board of Directors.

> Committee Members: J. Coalter Baker (TX), Chair David de Silva (NY) Andrew L. DuBoff (NJ) Marc Moyers (VA) John E. Patterson (OH) John B. Peace (AR) Vicky Petete (OK) Donovan W. Rulien, II (AK) Stephanie M. Saunders (VA) Dan Vuckovich (MT)

Staff Liaisons: Daniel J. Dustin Louise Dratler Haberman

MILESTONES OF NASBA

October 2018

NASBA Board approves for exposure Model Rule for continuous Uniform CPA Examination testing.

"Trust is an economic driver, not merely a social virtue," keynote speaker Stephen M.R. Covey told NASBA's 111th Annual Meeting, held October 28-31, in Scottsdale, AZ. The meeting's theme was "Building Trust," as underscored by President & CEO Ken Bishop: "Trust is the only way we can be successful."

American Accounting Association President Marc Rubin tells Annual Meeting attendees that he supports skills-based education, but: "You have to change state law to get everyone on the same page."





"Trust is the only way we can be successful."

- Ken Bishop

December 2018

NASBA Ethics Committee Chair Catherine Allen served as a panelist on "Ethical Issues" at the Baruch College/NASBA Center for the Public Trust - 13th Annual Audit Conference on Ensuring Integrity, on December 4 in New York City.

Securities and Exchange Commission releases "Request for Comment on Earnings Releases and Quarterly Reports," to which NASBA responds.

February 2019

Regional Directors hold regional conference calls to update state boards on legislative efforts and receive the boards' input on activities in their jurisdictions.

NASBA restates its concerns about the AICPA Professional Ethics Executive Committee's proposed interpretation on "staff augmentation arrangements."

Joint Uniform Accountancy Act Committee and Professional Ethics Executive Committee task force formed to align efforts on addressing clients' noncompliance with laws and regulation (NOCLAR).

November 2018

State of Ohio launches the first crypto tax payment portal.

NASBA leadership meets with Public Company Accounting Oversight Board in Washington, DC. Among topics discussed was responding to technology's impact on the accounting profession.

The CPA Evolution Working Group, formed by NASBA and the AICPA, met. The Group was tasked with advising the two organizations on actions that would position the profession for the future while continuing to protect the public interest.

January 2019

NASBA outsources its IT operations to CGI. CGI will provide application development and maintenance, infrastructure operation and engineering, cloud services management, end-user support and service desk response.

UAA Model Rules for Peer Review (Section 7) released for comment. Deadline for responses - June 30, 2019.

Comment period of Model Rules amendment to facilitate continuous testing closes. Executive Directors report Boards of Accountancy are supportive and ready to move for state adoption.

March 2019

Boards of Accountancy administrative staff and State CPA Societies' chief executives attend NASBA's 37th Annual Conference for Executive Directors and State Board Staff, held March 26-28, in San Antonio, TX. State Board staff look forward to NASBA's streamlined CPE Audit Service.



April 2019

AICPA gearing up for practice analysis in support of the Uniform CPA Examination. Results to be announced in December 2019. Boards of Accountancy asked to be prepared to review the practice analysis' findings at their meetings early in 2020.

NASBA Board adopts Model Rule 5-7(a)(2) to facilitate the continuous availability of testing on the Uniform CPA Examination.



June 2019

Regional Meetings held June 11-13 in Washington, DC, and June 18-20 in Salt Lake City, UT. CPA Evolution Working Group's *Guiding Principles* draft unveiled.

Summit meeting of leaders representing NASBA, AICPA, CPA Canada and Instituto Mexicano de Contadores Públicos meet in Toronto, Canada, June 24-25.

CPT Student Leadership Conference held in Washington, DC. Sixty-one students were in attendance from across the country.

August 2019

NASBA Executive Vice President & COO Colleen Conrad addresses American Accounting Association's Annual Meeting as a panelist on the evolution of the CPA profession. NASBA booth attracts many educators interested in the forthcoming 2018 edition of the Candidate Performance on the Uniform CPA Examination publication.

NASBA awards Accounting Education Research Grants to faculty and postdoctoral researchers from Rutgers University, Fairleigh Dickinson University, Ball State University, Texas Tech University and East Carolina University.

May 2019

NASBA and AICPA release proposed revisions to the Statement on Standards for Continuing Professional Education Programs, which provide a framework for the development, presentation, measurement and reporting of CPE programs. Comments due by August 31, 2019.

CPE Audit Service launched by NASBA in eight states. Additional states to be added by September 2019.

Alliance for Responsible Professional Licensing (ARPL) begins work to create a unified voice as it establishes responsiblelicensing.org.

July 2019

Gaylen R. Hansen, NASBA Chair 2012-13, becomes chair of the Consultative Advisory Group of the International Ethics Standards Board.

NASBA Vice Chair Laurie Tish reports to the July NASBA Board of Directors' meeting on progress of CPA Evolution Working Group's deliberations. Comments received at the June Regional Meetings, along with those gathered through the *cpaevolution.org* website and AICPA meetings are being considered.

Joint UAA/PEEC NOCLAR Task Force holds initial face-to-face meeting in Washington, DC.

September 2019

Regional conference calls are held covering all jurisdictions. Many states note legislative trend to narrow types of criminal convictions that might prevent CPA licensing.

NASBA/AICPA International Qualifications Appraisal Board finalizes mutual recognition agreements to be brought to the NASBA and AICPA Boards for their approval. Hear from representatives of the U.S. Trade Representative's Office on current trade environment. need of research funding?

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PRODUCTS & SERVICES

NASBA takes an innovative approach to addressing the needs of the Boards of Accountancy, current and prospective CPAs and the public by offering an array of products and services designed to support every stage of the CPA life cycle. From CPA Examination administration, to licensure, to education, these high-quality products and services are helping to shape the future of the accounting profession.

Member services include, but are not limited to, association meetings, evaluation of international coursework and credentials, score reporting and legislative tracking. NASBA's consumer products span from licensing application assistance to continuing professional education (CPE) and compliance management services.

As the profession advances, products and services have also been developed to ensure the public's protection and reaffirm NASBA's position as a trusted resource for additional stakeholders including CPE providers, State CPA Societies, academic institutions and accounting firms of all sizes. The following pages detail more about the various products, services and complementary offerings available through NASBA.

Enroll your classes in the program today.

CPA Exam Candidates FOIL

MISSION DRIVEN - MEMBER FOCUSED

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CPA Central is NASBA's headquarters for the Uniform CPA Examination, serving those who wish to take the Exam in a jurisdiction supported by CPA Examination Services (CPAES), NASBA's flagship program. In addition to the user-friendly online application for first-time, re-examination and pre-evaluation (where available) candidates, CPA Central gives Exam takers everything they need in one place, including online score retrieval, Notice to Schedule reprints, application status and history, and quick links that provide useful information on a variety of Exam-related topics, from how the Exam is scored to testing in international locations.



CredentialNet, a service of the NQAS, is an Individual Substantial Equivalency evaluation service for the purposes of mobility and/or reciprocal licensure.

CPA Examination Services

As NASBA's flagship program, CPA Examination Services (CPAES) provides a comprehensive array of services related to the Uniform CPA Examination. A few of these services include application processing, credential evaluations and score reporting. Outsourcing these services to the experienced and reliable professionals at NASBA enables Boards of Accountancy to provide candidates with a positive Examination experience while remaining focused on other critical regulatory functions - like enforcement and rule making.

GUAM TESTING CENTER

NASBA's Guam Testing Center administers the Uniform CPA Examination and other miscellaneous exams including admissions exams, certificate exams and the Graduate Record Examination (GRE) to international candidates (primarily from Korea and China). Because of the center's prime location, international candidates find it an



advantageous destination for taking these exams. **CANDIDATE CARE**



Candidate Care provides personal assistance to candidates who experience difficulties related to taking the CPA Examination. Assistance is also provided to

Boards of Accountancy by monitoring center problem reports, Examination exit surveys, and candidate issues to identify potential trends and issues that may warrant further investigation.

TESTING ACCOMMODATIONS AND ADA COMPLIANCE

NASBA's Testing Accommodations team responds to complex legal and clinical testing accommodation requests. Trained and qualified personnel evaluate individual eligibility as well as negotiate

and implement testing accommodations in accordance with the Americans with Disabilities Act (ADA) while maintaining the integrity of the CPA Examination.



With the capability and resources to help make the licensing process more efficient for Boards of Accountancy and applicants, NASBA has provided licensing and renewal services to Boards of Accountancy for more than 25 years. CPA Licensing Services include application processing, eligibility determination, electronic file transmissions and board reporting. NASBA also provides excellent and reliable customer service to applicants throughout the entire licensing process.

NATIONAL CANDIDATE DATABASE

The National Candidate Database (NCD) is a database of CPA candidate information created to help NASBA, Boards of Accountancy, the American Institute of Certified Public Accountants (AICPA) and testing centers protect the personal data provided by candidates during application and examination processes. As a central repository for all CPA Examination candidate information, the NCD is a global tracking system for CPA Examination candidates. With the ability to track a candidate's history, from initial application to grading of the Examination, the NCD is a powerful tool for managing testing information.

NASBA store

NASBAstore.org is a marketplace of CPA Exam products and services, including score transfers and license verifications, available for use by all Boards of Accountancy. The NASBAstore serves many of the needs of today's accounting professionals. It is also the home of NASBA's Wall Certificate Service, offering creative, professional design options to enhance the appearance of licensing certificates and license cards. The Wall Certificate Service offers state-of-the-art printing, timely processing and distribution of plastic license cards and decorative wall certificates. NASBAstore also offers custom framing options, CPA-branded cuff links, mugs, mouse pads and pens to show off the pride that comes with being a CPA.







NASBA offers the International Qualification Examination (IQEX) to qualifying candidates. The purpose of IQEX is to facilitate the U.S. CPA qualification process for accounting professionals from other countries whose professional bodies have entered into mutual recognition agreements developed by NASBA and the American Institute of Certified Public Accountants (AICPA). These agreements have been established with the CPA Canada (CPAC), Instituo Mexicano de Contadores Públicos (IMCP), Chartered Accountants in Australia/New Zealand (CAANZ), CPA Australia, Chartered Accountants of Ireland (CAI), the Hong Kong Institute of Certified Public Accountants (HKICPA), and the Institute of Chartered Accountants of Scotland (ICAS). NASBA U is a training and networking event available exclusively to Board of Accountancy executive directors. It is a one-day session held at NASBA's headquarters, located in Nashville, TN. Participants are introduced to a variety of tools and services available to assist board staff in their various roles. Additionally, attendees have an opportunity to network with fellow Board of Accountancy representatives, meet key members of NASBA staff and tour the NASBA facilities.



LEGISLATIVE TRACKING

NASBA's Legislative Tracking System was created and calibrated specifically for Boards of Accountancy to monitor legislation and amendments (in real time) that affect the regulation of the profession. By allowing boards to become more readily aware and to share knowledge concerning key pieces of legislation that could greatly impact their regulatory responsibility, the tracking system provides an important and unprecedented step toward enhancing the effectiveness and advancing the common interests of all Boards of Accountancy and the profession as a whole.



The NASBA Report on the Uniform CPA Examination is the go-to resource for annual statistics and trends of candidates taking the Uniform CPA Examination. The all new, re-designed *Candidate Performance on the Uniform CPA Examination – 2018 Edition* combines the Jurisdiction and University Editions into a single publication. The 2018 Edition includes the popular university rankings, accreditation reporting and cohort tracking, and introduces multiyear trending and percent pass by degree type. This information, available only from NASBA, offers the best overview of CPA Examination trends from around the world, and at the jurisdiction and university level.

KEY PERSON CONTACT

In order to develop strong relationships with elected members of state and federal legislative and executive branches of government, in every jurisdiction, NASBA has developed a Key Person Contact (KPC) program. NASBA's KPC program was established to educate elected members of legislative and executive branches of government on issues affecting the CPA profession. Key Person **Contacts are NASBA members** who recognize the difference that individuals can make in the legislative process. In this role, members act as liaisons between NASBA and lawmakers, creating a line of communication to relay technical and general information regarding legislative issues that impact the profession.

ALLIANCE FOR RESPONSIBLE PROFESSIONAL LICENSING

To combat steps taken around the country to weaken or even eliminate occupational licensing laws, in 2019, NASBA became a founding member of the Alliance for Responsible Professional Licensing (ARPL) – a coalition of national associations that represents highly complex, technical professions and their national licensing boards.

ARPL has been created to ensure that a unified voice for the advanced professions is present and heard in the growing debate around the appropriate level of licensure for professions and occupations. While these laws may not intentionally target accountancy, ARPL professions are at risk of being swept up in overly broad legislation.




The NASBA Experience Verification service was launched in 2016 in response to the accounting profession's increasing need for a coherent and standardized experience validation and verification process for international and domestic CPA licensure applicants. With the careful guidance of a NASBA client manager, applicants are led through the process and interviewed by a NASBA CPA. Additionally, their work experience is verified. The client managers liaise with both the Board of Accountancy and the applicant to ensure that all requirements are met before the licensure application is sent out for board review.



Now providing service for over 50 jurisdictions, NASBA International Evaluation Services (NIES) is dedicated to the professional and standardized evaluation of international coursework and credentials for candidates applying for the Uniform CPA Examination and licensure.



Aequo International was founded in 2014 to provide universities and other professional boards with the same high standard of international evaluations that NASBA offers its member Boards of Accountancy. Aequo International is dedicated to performing accurate domestic and international education evaluations, identifying fraudulent documents and protecting the public.





The Advisory Evaluation service aims to guide students along a clear path to the CPA Exam, offering a comprehensive understanding of how their current education is viewed by Boards of Accountancy. Advisory Evaluations identify which requirements must be satisfied before a candidate is eligible to sit for the Exam in their chosen jurisdiction, eliminating potential delays.

EDUCATION VERIFICATION

The Education Verification service offers candidates an alternative to having their educational institutions submit documents directly to NASBA International Evaluation Services (NIES) for evaluation. This service allows candidates who experience difficulty in obtaining official documentation the option of submitting copies of their original documents via email. NIES will then confirm with the source if these documents are authentic, saving candidates the inconvenience of having their university issue official educational documents.

UNDECIDED EVALUATION

The Undecided Evaluation service aims to guide candidates along a clear path to the CPA Exam, offering a comprehensive understanding of how their education is viewed by the U.S. Boards of Accountancy. The Undecided Evaluation will equate the candidate's international education to the U.S. equivalence and suggest up to three jurisdictions that will provide the best opportunity to qualify for the CPA Exam. The candidate can then use one of the recommendations to apply for a jurisdiction-specific International Credential Evaluation prior to applying to sit for the CPA Exam.



Given the ever-changing regulatory environment and adoption of mobility legislation in most states, it is a challenge to remain up-to-date on the various CPA and firm licensing laws and rules among all Boards of Accountancy. The Accountancy Licensing Library (ALL) helps remove the complexity from the CPA license and firm registration process for busy accounting professionals. This valuable resource contains comprehensive and accurate information for the different types of CPA licenses (initial, reciprocal, mobility/practice privilege and firm registration). Access to ALL is available for purchase by the public and CPA firms and is free to Boards of Accountancy and academic advisors at colleges and universities.



CPAverify.org is a CPA license search tool populated by official, publicly available, CPA licensing data sent from Boards of Accountancy to a central database. With 53 jurisdictions participating by the end of 2019, *CPAverify. org* is the only official, free, single-source national database of licensed CPAs available to the public. Whether verifying that your CPA is actively licensed and in good standing or checking the professional history of a potential employee, *CPAverify.org* provides individuals and organizations alike a convenient and credible way to research a CPA without having to search each Board of Accountancy's website individually.



The National Registry of CPE Sponsors was created to recognize CPE program sponsors that provide continuing professional education programs in accordance with nationally recognized standards. Only learning providers that are

committed to offering high-quality continuing education programs, which improve a CPA's professional competence, are listed on the Registry, and NASBA is proud to have over 2,200 currently approved. The National Registry of CPE Sponsors' logo is the seal of approval for CPE. When you see that logo, you can trust that the continuing education you receive will be of the highest quality.



Created to assist Boards of Accountancy with their regulatory mission, the Accountancy Licensee Database (ALD) is a central repository of current licensee and firm information. With the addition of Delaware in late 2019, 53 Boards of Accountancy will be participating and the remaining two are working toward implementation. This new addition puts NASBA closer to realizing its goal of housing current and accurate licensing and disciplinary information for individual CPAs and firms from each of the 55 U.S. jurisdictions. The ALD is hosted by NASBA and access to the system is free to Boards of Accountancy.

CPAmobility.org

With statutes approved in 54 of the 55 U.S. jurisdictions, individual mobility has become a reality for CPAs from coast to coast. In addition, 25 jurisdictions now offer firm mobility. For individuals, mobility is a practice privilege that generally permits licensed CPAs in good standing, from a substantially equivalent state, to practice outside of their principal place of business without obtaining another license. Likewise, firms meeting the ownership and peer review requirements of the mobility jurisdiction may provide attest services in another state where it is not registered and does not have a physical office, under a "no notice, no fee, no escape" regime. With CPAmobility.org, CPAs can learn whether mobility applies to their specific situation and whether firm registration or other paperwork is required - all within four clicks. Desktop and mobile access to CPAmobility.org provides a wealth of information at your fingertips.

cpeaudifservice

NASBA's CPE Audit Service offers a platform designed to assist Boards of Accountancy with conducting the periodic audits for compliance with continuing professional education requirements. The service allows CPAs to report CPE hours and documentation, electronically, to the board. It offers a turnkey solution for Boards of Accountancy to more efficiently and effectively manage their overall CPE audit process. The service is a benefit of NASBA membership for state boards that participate in the Accountancy Licensee Database (ALD) and have their licensee data records linked with other records across state lines.

CPE RULES ENGINE SERVICE

Launched in 2018, the CPE Rules Engine Service was designed to assist third party clients in calculating the CPE compliance of their professionals using the rules engine that is the foundation of NASBA's CPE Audit Service. Clients deliver data input files compliant with NASBA's specifications on a nightly basis and the NASBA Rules Engine Service returns data output files that can then be used within the particular learning management tool used by the clients.



NASBA's Communications Department offers complimentary creative services to Boards of Accountancy that are attractive, relevant and audience-driven. Services include editorial and social media consultation, video production and design for newsletters, brochures, mass emails, infographics and annual reports. As of September 2019, a total of 45 Boards of Accountancy currently participate in the Communications & Outreach program.

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NASBAregistry.org is a comprehensive resource for learning providers listed on the National Registry of CPE Sponsors. Video tutorials, newsletters, sample forms, best practices and online applications are all part of the site. Looking for CPE to meet your requirements? Visit NASBAregistry.org to search through more than 20,400 courses to find just what you need. Searches can even be narrowed by date, location, subject area, number of credit hours, CPE provider, delivery method, and more. With all the different continuing education options available, NASBAregistry.org makes finding the exact CPE course faster and easier.



THE YEAR IN REVIEW



Susan Somers (KS), Wendy Garvin (TN) and Tom DeGroodt (MO) lead panel during the 37th Annual Conference for Executive Directors and Board Staff.





Regional breakout session discusses CPA Evolution Guiding Principles during the Western Regional Meeting.

Chair Ted Long congratulates new Chair Janice Gray at the 111th Annual Meeting.





Leaders of the Canadian, Mexican and U.S. accounting profession met in Toronto, Canada, June 24-25, to discuss issues of mutual concern.

Members of the Virgin Islands Board pariticipate during general session of the Eastern Regional Meeting.



International Ethics Standards Board for Accountants (IESBA) Chair Stavros Thomadakis (left) presents NASBA Senior Vice President and CFO Michael Bryant with a plaque expressing IESBA's appreciation for NASBA's hospitality in providing IESBA meeting space in its Nashville headquarters.

NASBA CENTER FOR THE PUBLIC TRUST

STUDENTCPT CHAPTERS

The Student Center for the Public Trust (StudentCPT) chapter program is influencing the ethical thinking and decision-making of future business leaders by teaching college students that engaging in ethical business practices is the most sustainable strategy for career advancement. With the vision of becoming the largest network of ethical leaders on college campuses, the StudentCPT continues to grow and now connects students in 46 chapters across 23 states and the U.S. Virgin Islands.

Over the past year, new student chapters were established at Tennessee Tech University, Temple University, Loyola University – Chicago, Marshall University, Oklahoma State University and University of Colorado – Denver.



STUDENT ETHICAL LEADERSHIP CERTIFICATION PROGRAM

As the CPT continues to shape the ethical values and principles of college students, the CPT enrolled nearly 4,000 college students in the Ethical Leadership Certification Program, representing a 21% increase in program growth over 2018.

The CPT's current learning management system uses mobile optimization for course delivery, engages learners through gamification elements and provides professors with enhanced class reporting features. The CPT remains committed to utilizing cutting edge technology to educate and empower ethical leaders.

40 MISSION DRIVEN - MEMBER FOCUSED

GROWTH IN 2019

Over the last year, the NASBA Center for the Public Trust (CPT) has continued to focus on educating, empowering and promoting ethical



leaders. Working alongside NASBA leadership and members, CPT Board members and other partners, the CPT developed new StudentCPT chapters, empowered student leaders during the 9th Annual StudentCPT Leadership Conference, held its third annual golf tournament, co-hosted the Business with Purpose Awards and expanded its student and professional ethics education offerings. The CPT also continued collaborating with organizations that promote ethical business leadership, integrity and trust.





ETHICAL LEADERSHIP TRAINING PROGRAM

As a part of the CPT's mission, to shape ethical leadership among professionals, the CPT is partnering with the Alabama, Florida, Idaho, Kansas, Minnesota, Missouri, Oklahoma, South Carolina, Tennessee and Washington State Boards of Accountancy, which have each agreed to use the Ethical Leadership Training Program as a disciplinary tool for



licensees in their jurisdictions with ethics infractions. More than 200 professionals successfully completed the training program during the 2018-19 fiscal year.

This CPT program is aimed at enhancing ethical decision-making in professionals and can be customized to fit the needs of any Board of Accountancy. The CPT is also in talks with several other states about implementing the program. These partnerships will assist the CPT in carrying out its goal of developing ethical leaders, while generating revenue to support StudentCPT programming.

BILL DANIELS BEING A DIFFERENCE AWARD

The CPT continues to support and promote ethical leaders within the business community. Each year, the CPT awards the *Bill Daniels Being a Difference Awards* to deserving leaders who go beyond making a difference and establish a reputation for continuously *Being a Difference* by being ethical leaders who lead in their businesses and communities with honor and integrity.

The award program is sponsored by the Daniels Fund, and is named in honor of its founder, the late Bill Daniels. Mr. Daniels is fondly remembered for his reputation for ethics and integrity, and his sincere compassion for those in need. When Mr. Daniels passed away in March of 2000, his estate transferred to the Daniels Fund, making it one of the largest foundations in the Rocky Mountain region. Through the *Bill Daniels Being a Difference Awards*, the CPT recognizes individuals who practice these high standards of ethical leadership.

NINTH ANNUAL STUDENTCPT LEADERSHIP CONFERENCE

The annual StudentCPT Leadership Conference unites students from across the country who are expected to serve as leaders of existing and future StudentCPT chapters. This year's conference was held in Washington, DC, and included 52 students, representing 36 colleges and universities.

The conference allows students to learn more about ethical leadership, accountability and integrity, while also enhancing their conflict management and networking abilities.

Attendees learned how to use their strengths, improve the operation of their StudentCPT chapters, and enhance their ethical decision-making abilities by interacting with subjectmatter experts, including outside professional presenters, CPT Board members and staff. Students also had the opportunity to network with the NASBA Regional Meeting attendees during luncheons and dinners.

Through the generosity of the center's supporters, the CPT raised funds to help offset the cost of hosting the conference. The CPT staff and Board of Directors are grateful to the donors who continue to support the conference and other CPT programmatic activity.



This year's conference was held in Washington, DC, and included 52 students, representing 36 colleges and universities.

ETHICS IN ACTION STUDENT VIDEO COMPETITION

The 2019 *Ethics in Action* Student Video Competition continues to help spread the importance of ethical decision-making through the creativity of college students. Sponsored by the Dean Institute for Corporate Governance and Integrity, the national competition allows students to share their views on ethics and accountability in business.

This year's competition received 94 video entries from 20 colleges and universities. These videos received nearly 7,000 views. The competition continues to be an effective tool to teach business ethics to students in a way that is fun, memorable and effective. This year's winning teams represented Tennessee Tech University, University of Northern Colorado, Ohio University, University of Central Florida, University of Louisiana – Lafayette and the University of Wyoming.

2018-19 BOARD OF DIRECTORS

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KEN L. BISHOP CEO, NASBA CPT

ALFONZO ALEXANDER President, NASBA CPT

SANDRA DAVIDSON CFO, NASBA CPT

SEDRIK NEWBERN CPT Operations Director

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY



National Association of State Boards of Accountancy, Inc.

Independent Auditors' Report and Consolidated Financial Statements

July 31, 2019 and 2018



National Association of State Boards of Accountancy

150 Fourth Avenue North, Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax: 615/880-4290 ♦ www.nasba.org

REPORT OF PRESIDENT & CHIEF EXECUTIVE OFFICER AND OF SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

September 19, 2019

We, Ken L. Bishop, President & Chief Executive Officer and Michael R. Bryant, CPA, Senior Vice President & Chief Financial Officer, of the National Association of State Boards of Accountancy, Inc. ("NASBA"), jointly and severally, do hereby state and attest that:

To the best of our knowledge and belief, based upon a review of the consolidated financial statements of the National Association of State Boards of Accountancy, Inc. and subsidiaries at and for the years ended July 31, 2019 and 2018, including the notes thereto, as reported on by NASBA's independent auditors, LBMC, PC, such financial statements do not contain an untrue statement of a material fact as of the date hereof nor do such financial statements fail to state a material fact necessary to make the financial statements, in light of the circumstances under which they were prepared, not misleading.

We have reviewed the contents of this statement with the Chair of the Audit Committee of NASBA.

Jon L. Bohop

Ken L. Bishop President & Chief Executive Officer

Michael R. Bruyant

Michael R. Bryant, CPA Senior Vice President & Chief Financial Officer



National Association of State Boards of Accountancy

150 Fourth Avenue North, Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax: 615/880-4290 ♦ www.nasba.org

REPORT OF MANAGEMENT

September 19, 2019

The management of the National Association of State Boards of Accountancy, Inc. and subsidiaries is responsible for the preparation, integrity and objectivity of the consolidated financial statements included in this annual report. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applied on a consistent basis and present fairly in all material respects the Association's financial position, changes in net assets and cash flows.

Management has established and maintains internal controls designed to give reasonable assurance of the integrity and objectivity of financial reporting, that assets are safeguarded, and that transactions are executed in accordance with appropriate authorizations and recorded properly. Internal controls include the careful selection of employees and members of the management team, the proper segregation of duties, and the communication and application of formal policies and procedures that are consistent with high standards of accounting and administrative practices. The concept of reasonable assurance is based on the premise that the cost of internal controls should not exceed the benefits derived.

The Board of Directors, through its Audit and Administration and Finance Committees, reviews financial and accounting policies, practices and reports, and monitors the system of accounting and internal controls and the competence of persons performing those functions. The Audit Committee also oversees the scope and results of independent audits and any comments on the adequacy of internal controls and quality of financial reporting. The independent auditors render an objective, independent opinion on management's financial statements, and have direct access to the Audit Committee with and without the presence of management.

The Board of Directors also has adopted and monitors personnel policies designed to ensure that employees of the National Association of State Boards of Accountancy, Inc. and subsidiaries are free of any conflicts of interest.

m L. Bohop

Ken L. Bishop President & Chief Executive Officer

Michael R. Breyan

Michael R. Bryant, CPA Senior Vice President & Chief Financial Officer

Colleen K. Conrad, CPA Executive Vice President & Chief Operating Officer

I voy a Wallen

Troy A. Walker, CPA Director, Finance & Controller

The mission of the National Association of State Boards of Accountancy, Inc. (NASBA) is to enhance the effectiveness and advance the common interests of the Boards of Accountancy (Boards). The fifty-five member Boards of NASBA are comprised of the fifty U.S. states, the District of Columbia and the U.S. territories of Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico and the U.S. Virgin Islands. NASBA provides resources to Boards to assist in the day to day activities of regulation and support in the Boards' role of public protection. These resources sustain services which include the Accountancy Licensee Database, Accountancy Licensing Library, CPE Audit Services, Board relations, legislative and governmental support, enforcement and peer review assistance, and other activities on behalf of the Boards.

Mission-related expenses also include funding of committees and conferences. In addition to the Board of Directors, there were twenty-five committees that focused on topics to continually improve the regulation of CPAs. NASBA also hosted five conferences comprised of the Annual Meeting, two Regional Meetings, and conferences for the Boards' Executive Directors, staff and legal counsels. Mission-related expenses also include the expenses of the NASBA Center for the Public Trust (CPT).



During Fiscal 2019, NASBA resolved to provide for the long-term success of its mission by transitioning internal Information Technology (IT) services to a professional services firm under an outsourcing agreement. As more fully described in the Restructuring of Information Technology Services section of this report, NASBA incurred nonrecurring costs of \$1.2 million during fiscal 2019. Even with this incremental restructuring cost, the amount spent on mission-related activities in support of Boards continued to increase over prior years.

The outsourcing of IT services was an important strategic step in the long-range commitment to Boards. Benefits of the restructuring include 1) enabling stability and maintaining quality of various software tools used by the Boards in regulation, 2) enhancing NASBA's cyber resilience, 3) improving the predictability and status transparency of IT projects, and 4) providing the ability to scale up or scale down IT services according to the enterprise's needs. Resource flexibility is difficult to maintain in a relatively small employee-staffed IT group. NASBA's chosen IT outsource partner had worked alongside NASBA's internal staff for the last few years in, most notably, development of the Gateway 2.0 and the CPE Audit Services software.

Program Revenue

Mission spending is funded through various program revenues of NASBA. In fiscal 2019, consolidated revenue increased by 3.4% from the prior fiscal year. As shown in the chart below, this increase in revenue is primarily in Compliance services. A new service, which in-part utilizes the CPE Audit Services software for Boards, began in the latter part of fiscal 2018. This service provides continuing professional education (CPE) licensing compliance reporting for entities with a large number of CPAs who practice in various jurisdictions. By providing this service to these and other entities, public protection is enhanced as compliance with CPE jurisdictional requirements is improved. Fiscal 2019 represents the first full year of revenue for this service, compared to a partial year in fiscal 2018, and significantly contributes to the overall revenue increase.

Examination related revenue declined slightly from the prior year as the downward trend in overall candidate volume continued. The year-overyear decline was significantly less than what had been experienced in fiscal 2018. Total examination related revenue decreased by 1.1% from fiscal 2018. The decline from fiscal 2017 to fiscal 2018 was 11.7%. The trend of declining candidate volume began after the launch of a restructured CPA Examination in April 2017. There had been a significant upward trend in candidate volumes in the approximate two-year period preceding the April 2017 changes in the CPA Examination.

Revenues from various other programs in fiscal 2019 generally tracked the prior year.

As shown in the chart to the right, the largest source of revenue is examination related. This revenue includes fees for operating the National Candidate Database, a central information repository for all CPA Examination candidates globally. In addition, services such as application processing, credential evaluations, and score reporting are provided to assist more than one-half of the Boards in their examinationrelated functions. Along with the revenue directly related to the processing of candidates into the CPA Examination channel, NASBA earns revenue related to academic evaluation services for those who have completed education outside of the U.S. NASBA's provision of these services enables Boards to provide individuals seeking licensure a pathway to the CPA examination. Successfully passing the examination is an essential requirement for becoming licensed.

NASBA also provides licensing services on behalf of some Boards. These services include eligibility determination, education evaluation (including from foreign institutions of higher learning), and application processing. Other services which generate a relatively small amount of revenue are provided to assist Boards in their examination and licensing regulatory roles as well.

PROGRAM REVENUE





Program Revenue (Continued)

In fiscal 2019, 248,000 examination sections were processed 310,000 305,000 287,000 through the National 257,000 Candidate Database. Included in this total are 12,300 sections related to candidates 13,100 11,600 10,800 choosing to test at 10,300 international locations. 2015 2016 2017 2018

NATIONAL CANDIDATE DATABASE SECTIONS

Compliance services is a component of Examination, licensing and related services as shown in the Consolidated Statements of Activities. Compliance services is comprised of both the National Registry of CPE Sponsors (Registry) and the CPE Rules Engine Service. The total revenue from Compliance services is shown separately in the Program Revenue chart on the previous page. The Registry is comprised of CPE program sponsors who commit to meeting the highest CPE program standards. To be listed on the Registry, learning providers must demonstrate that professional competence of a participating CPA is enhanced by the programs offered. As a part of the services offered by the Registry, the National Registry Summit is held annually which focuses on continuing professional education standards, improved delivery methods and increased learning effectiveness. In addition to the Registry, Compliance services includes services that assist in monitoring licensees' compliance with CPE requirements, as previously discussed.



248,000

12,300

2019

Member services, dues and other revenue in the Consolidated Statements of Activities includes Board dues, conference fees, and CPT related revenue including contributions and other program services.

Program Expenses

Total consolidated program expenses increased by 2.0% to \$31.3 million in fiscal 2019 from \$30.7 million in fiscal 2018.

This increase in program expenses is solely related to Member services as total expenses for Examination, licensing and related services are equivalent to the prior fiscal year. The increase in Member services expenses are related to regulation and public protection activities. The additional expenses in this area are generally related to the CPE Audit Services Board tool. From a functional expense level, the increase is primarily IT related expenses in professional services and depreciation and amortization expenses. Overall, total operating expenses for NASBA during fiscal 2019 were incurred on the following programs and services:



Restructuring of Information Technology Services

In November 2018, NASBA entered into a Managed IT Services Agreement with a third-party IT consulting firm. NASBA had engaged this firm for various IT projects over the past few years including, most recently, the software development for Gateway 2.0, CPE Audit Services, and CPE Rules Engine Services. Based on the professional relationship built with this vendor, and their existing knowledge of NASBA's systems, management made the decision to transition from an employee staffed IT services group to an outsourced, long-term contractual relationship with the third-party. The transition was completed in February 2019. Costs related to the transition were \$1.2 million and, as shown on the Consolidated Statements of Functional Expenses, included severance pay and retention bonuses for terminated IT employees who worked until the transition was complete, legal services related to the contract execution, and incremental costs during the transition period when both IT employees and contractually engaged consultants were at work sharing knowledge to accomplish the full transition.

Entering into a long-term contract for outsourced IT services is a strategic decision intended to address challenges faced by internal IT services. These challenges include retaining employees in a local business environment where IT resources are in high demand. An additional challenge is having the capability to increase IT personnel resources in periods when large projects are in process, and not carrying unneeded labor costs into the future when such projects complete. Management believes the current outsource approach will provide more accountability around project completion dates and project costs. The third-party to which services are outsourced is a multi-billion-dollar international IT consulting services firm. This brings a broader range of IT capabilities and intellectual capital than an in-house IT services group can provide.

Investments

NASBA has long-term investment securities which, if needed, provide liquidity for NASBA in the event of significant capital endeavors, an economic downturn, or some other unanticipated event. The long-term fund investments allowed under the board-approved investment policy are directed at the discretion of investment advisors who are under the oversight of the NASBA Investment Committee.



LONG-TERM INVESTMENT RETURN



Approximately one-half of the investment securities balance at July 31, 2019 is invested in lower-risk investment securities such as federally insured certificates of deposit, U.S. Treasury and Federal Agency securities, corporate bonds with a rating of investment grade or better, and other fixed income mutual funds and separately managed fixed income accounts.

NASBA has an ownership percentage in a holding company whose investments include a former wholly owned subsidiary. This investment is shown as Investment in affiliate in the Consolidated Statements of Financial Position. During fiscal 2018, as a result of the issuance of additional equity units by the holding company in connection with an acquisition, NASBA recognized a gain of \$0.5 million related to the units it holds. This gain was reduced by NASBA's share of losses from August 1, 2017 through January 5, 2018, the date the transaction occurred and when NASBA's ownership percentage was diluted (See Note 7 to the consolidated financial statements). Due to the circumstances of the transaction, including a reduction in NASBA's ability to exert significant influence, accounting for the investment in affiliate was changed from the equity-method to the cost method.



Cash Flow and Financial Position

During fiscal 2019, cash and cash equivalents decreased by a net of \$0.3 million. The net decrease has as one of its main components the continued investment in software projects, primarily CPE Audit Services. This software launched in the latter part of fiscal 2019 with some additional enhancements and other development continuing through the end of fiscal 2019. Total cash paid for capital expenditures related to software development in fiscal 2019 was \$2.1 million.

Capital expenditures for software development projects, as well as office renovations and relocations over the past few years, coupled with the IT restructuring costs of the current year and lower examination candidate volume, put downward pressure on

CASH PROVIDED AND (USED) In Millions (3) (2) (1) - 1 2 3 Net cash provided by operations Capitalized software development \$(2.1) Long-term fund purchases in excess of sales Property and equipment additions Other \$(0.2)

Net decrease in cash and cash equivalents

operating cash levels. In May 2019, \$1.5 million of the long-term fund investment securities were sold with the proceeds transferred to operating cash During the first part of fiscal 2019, prior to the decision to restructure IT services, operating cash was used to purchase investment securities for the longterm fund. Throughout the year, reinvested dividends also increased the amount of additions to the long-term fund.

Net Assets

The total increase in net assets for fiscal 2019 is approximately \$1.4 million compared to an increase of \$3.1 million in fiscal 2018. The decrease from the prior year is primarily attributable to the nonrecurring \$1.2 million cost of restructuring information technology services in fiscal 2019.



2018

2019

The restructuring of information technology services and continued lower than expected candidate volume created some financial headwinds during fiscal 2019. NASBA remained resolute in its support on behalf of, and in conjunction with, the member Boards of NASBA through continued services and activities related to the regulation of CPAs and public protection. This is the seventh year in a row in which total Member services expenses have increased over the prior year. Over this period, the total annual amount of expenses incurred through Member services has increased by 40%.

Over the past five years, NASBA has been positioned financially in a way that has allowed it to build tools to assist Boards, reinvest in its infrastructure, make important strategic decisions regarding the future of IT services it provides, weather a longer than expected duration of lower candidate volume, and continue to increase spending on behalf of Boards. During this period, it has also increased its net assets, assuring that Boards are well supported for the long-term. Management believes NASBA has sufficient liquidity and resources to meet its needs in the short and long-term. NASBA maintains a strong financial foundation to address the everchanging landscape in the Boards' regulation of the profession and their role in the protection of the public.

NET ASSETS FIVE-YEAR TREND In Millions

\$(0.3)





National Association of State Boards of Accountancy

150 Fourth Avenue North, Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax: 615/880-4290 ♦ www.nasba.org

REPORT OF AUDIT COMMITTEE

September 19, 2019

To the Board of Directors of the National Association of State Boards of Accountancy, Inc.

The Audit Committee (the "Committee") of the National Association of State Boards of Accountancy, Inc. for the year ended July 31, 2019, was charged by the Board of Directors with the responsibility for oversight of the annual independent audit of the consolidated financial statements.

In connection with the discharge of its responsibility,

- Prior to commencement of the year-end audit work, the Committee met with the independent auditors to discuss (1) the overall scope and specific plans for the conduct of the audit, (2) the performance of agreed-upon procedures related to the escrow accounts and (3) the accounting, reporting and internal control processes and procedures of the National Association of State Boards of Accountancy, Inc.;
- The Committee reviewed the Audit Committee Charter (the "Charter"), which governs the Committee's scope of responsibilities and actions and assessed the need for Charter changes for recommendation to the Board of Directors;
- The Committee utilized a compliance tool to self-assess the execution of its responsibilities as specified in the Charter and reviewed its own performance during the year;
- The Committee received presentations from the organization's cyber security consultant summarizing the security program in place for the National Association of State Boards of Accountancy, Inc.;
- After the completion of the audit, the Committee, along with members of senior management, met with the independent auditors to discuss the results of the audit and the agreed-upon procedures, and, without senior management present, the Committee discussed privately with the independent auditors any matters of concern of the independent auditors; and
- The Committee met privately with senior management to discuss and consider the credentials and performance of the independent auditors and made a recommendation to the Board of Directors as to the appointment of an independent audit firm for the year ending July 31, 2020.

Based on the above, the Committee believes that the annual independent audit and agreed-upon procedures were properly completed, management has maintained adequate systems and controls and followed the appropriate procedures related to financial accounting and reporting, and the Committee has fulfilled its duties in accordance with the Charter for the year ended July 31, 2019.

Respectfully submitted,

The Audit Committee National Association of State Boards of Accountancy, Inc.

fame D. Miller

By: Faye D. Miller, CPA, Chair

Other Members of the Committee Timothy F. Egan, CPA C. Larry Elmore, CPA Michael T. Schmitz, CPA Randa R. Vernon, CPA Laurie A. Warwick, CPA

LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the National Association of State Boards of Accountancy, Inc. Nashville, Tennessee

We have audited the accompanying consolidated financial statements of the National Association of State Boards of Accountancy, Inc. and subsidiaries, which comprise the consolidated statements of activities and functional expenses for the years ended July 31, 2019 and 2018, the related consolidated statements of financial position as of July 31, 2019 and 2018, and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the changes in the net assets of the National Association of State Boards of Accountancy, Inc. and subsidiaries for the years ended July 31, 2019 and 2018, financial position as of July 31, 2019 and 2018, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee September 19, 2019

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC. CONSOLIDATED STATEMENTS OF ACTIVITIES For Years Ended July 31, In Thousands

	2019	2018
Program Revenue		
Examination, licensing and related services	\$ 30,984	\$ 29,983
Member services, dues and other revenue	1,296	1,237
Total program revenue	32,280	31,220
Program Expenses		
Examination, licensing and related services	20,938	20,885
Member services:	7,938	7,366
Regulation and public protection Committees and conferences	1,789	1,816
Other		
Other	664	664
Total program expenses	31,329	30,731
Restructuring of Information Technology Services	1,208	
Total expenses	32,537	30,731
Excess (Deficit) of Program Revenue Over (Under) Expenses	(257)	489
Net Assets Released from Restrictions	33	13
Postretirement Benefit (Cost) Credit	(45)	7
Investment Income	1,613	2,238
Gain from Investment in Affiliate	<u> </u>	354
Increase in Net Assets Without Donor Restrictions	1,344	3,101
Change in Net Assets With Donor Restrictions		
Restricted contributions and investment income	13	37
Net assets released from restrictions	(33)	(13)
Increase (Decrease) in Net Assets With Donor Restrictions	(20)	24
Increase in Net Assets	1,324	3,125
Net Assets, Beginning of Year	54,646	51,521
Net Assets, End of Year	\$ 55,970	\$ 54,646

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC. CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES For Years Ended July 31, In Thousands

9	lic	xamination, censing and ted services		Member services	To	tal program expenses	ofi	estructuring nformation eechnology services	Tota	al expenses
Compensation	\$	8,909	\$	3,669	\$	12,578	\$	242	\$	12,820
Benefits, taxes and other employee costs	Ŷ	2,610	Ŷ	964	Ψ	3,574	Ψ	58	Ŷ	3,632
Conferences and meetings		110		1,136		1,246		-		1,246
Travel		157		1,026		1,183		-		1,183
Technology		1,438		670		2,108		-		2,108
Professional services		2,830		1,439		4,269		908		5,177
Credit card and other program service costs		1,767		21		1,788		-		1,788
Occupancy		1,109		540		1,649		-		1,649
Depreciation and amortization		1,217		507		1,724		-		1,724
Office		345		177		522		-		522
Marketing and community support		74		68		142		-		142
Other		372		174		546		-		546
Total	\$	20,938	\$	10,391	\$	31,329	\$	1,208	\$	32,537

	lic	xamination, censing and ted services		Member services	To	tal program expenses	of	estructuring information technology services	Tot	al expenses
D18 Compensation	\$	10,006	\$	3,971	\$	13,977	\$		\$	12 077
Benefits, taxes and other employee costs	φ	2,921	φ	1,093	Φ	4,014	Ф	-	Φ	13,977 4,014
Conferences and meetings		124		1,000		1,300		-		1,300
Travel		157		974		1,131		_		1,131
Technology		1,582		631		2,213		-		2,213
Professional services		1,286		866		2,152		-		2,152
Credit card and other program service costs		1,911		20		1,931		-		1,931
Occupancy		1,159		477		1,636		-		1,636
Depreciation and amortization		856		277		1,133		-		1,133
Office		452		132		584		-		584
Marketing and community support		86		77		163		-		163
Other		345		152		497		-		497
Total	\$	20,885	\$	9,846	\$	30,731	\$	-	\$	30,731

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION July 31, In Thousands

	20	019	2018
Assets			
Current Assets			
Cash and cash equivalents	\$ 5,9		6,216
Receivables	1,2		1,523
Prepaid expenses	9	88	992
Total current assets	8,1	82	8,731
Investments and Other Assets			
Investment securities, at fair value	41,1	80	40,033
Investment in affiliate	8	84	884
Other assets	2	10	224
Total investments and other assets	42,2	.74	41,141
Property and Equipment	8,9		0 117
Property and Equipment Less accumulated depreciation and amortization	3,4		9,117 2,980
Net property and equipment	5,4	28	6,137
Software Development Costs	11,9		10,141
Less accumulated amortization	2,4	411	1,666
Net software development costs	9,5	20	8,475
Total assets	\$ 65,4	04 \$	64,484
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 5,8	\$ 10	6,414
Deferred revenue	9	23	664
Capital lease, current		1	11
Other current liabilities	1	23	129
Total current liabilities	6,8	48	7,218
Long-term Liabilities			
Capital lease, non-current		-	1
Other long-term liabilities			2,619
	2,5	86	
	2,5		
Total long-term liabilities	2,5	86	2,620
		86	
Total long-term liabilities Total liabilities Net Assets	2,5 9,4	86 34	2,620 9,838
Total long-term liabilities Total liabilities Net Assets Without donor restrictions	2,5 9,4 55,7	86 34 83	2,620 9,838 54,439
Total long-term liabilities Total liabilities Net Assets	2,5 9,4 55,7	86 34	2,620 9,838
Total long-term liabilities Total liabilities Net Assets Without donor restrictions	2,5 9,4 55,7	86 34 83 87	2,620 9,838 54,439
Total long-term liabilities Total liabilities Net Assets Without donor restrictions With donor restrictions	2,5 9,4 55,7 1	86 34 83 87 70	2,620 9,838 54,439 207

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS For Years Ended July 31, In Thousands

	 2019	 2018
Operating Activities		
Cash received for services	\$ 35,328	\$ 35,488
Cash received for membership dues	300	302
Cash received from donors to NASBA Center for the Public Trust	238	207
Interest and dividends received	1,342	1,100
Cash paid to employees, vendors and others	(32,547)	(32,028)
Cash paid for restructuring of information technology services	(1,208)	-
Cash received from examination candidates for examination partners	48,784	49,609
Cash paid to escrow accounts for examination partners	(49,487)	(48,554)
Interest paid	 -	 (1)
Net cash provided by operating activities	 2,750	 6,123
Investing Activities		
Property and equipment additions	(171)	(2,267)
Proceeds from property and equipment disposals	-	4
Capitalized software development costs	(2,136)	(3,973)
Recovery of capitalized software development costs	-	813
Purchases of investment securities	(9,841)	(13,752)
Proceeds from sale of investment securities	9,107	11,861
Other	(3)	 (3)
Net cash used by investing activities	 (3,044)	 (7,317)
Financing Activities		
Principal payments on capital lease	 (11)	 (10)
Net cash used by financing activities	(11)	 (10)
Net Decrease in Cash and Cash Equivalents	(305)	(1,204)
Cash and Cash Equivalents, Beginning of Year	 6,216	 7,420
Cash and Cash Equivalents, End of Year	\$ 5,911	\$ 6,216

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED For Years Ended July 31, In Thousands

	 2019	 2018
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 1,324	\$ 3,125
Adjustments to reconcile increase in net assets to net cash		
provided by operating activities:		
Depreciation and amortization of property and equipment	899	794
Amortization of software development costs	825	339
Gains on investment securities	(413)	(1,279)
Gain from investment in affiliate	-	(354)
Recognition of deferred rent credit	(116)	(119)
(Gain) loss on disposals of property and equipment	30	(2)
Gains on endowment fund investment securities	-	(4)
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables	240	1,576
Prepaid expenses and other assets	21	(141)
Increase (decrease) in:		
Accounts payable, accrued and other liabilities	(319)	1,755
Deferred revenue	259	433
Net cash provided by operating activities	\$ 2,750	\$ 6,123
Non-cash Investing and Financing Activities		
Accrued costs for property and equipment additions	\$ 53	\$ 4
Accrued capitalized software development costs	\$ 35	\$ 301

Note 1. Organization and Nature of Operations

The National Association of State Boards of Accountancy, Inc. (the "Association") is a nonprofit, voluntary membership association of the Boards of Accountancy in the fifty states of the United States of America, the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico and the U.S. Virgin Islands.

The Association provides examination, licensing and related services including programs and activities which facilitate or assist Boards of Accountancy in fulfilling their responsibilities related to the qualifying of candidates for the Certified Public Accountant ("CPA") license. In addition, the Association assists Boards of Accountancy and licensees with the ongoing maintenance of licenses. Services to Boards of Accountancy and licensees include identifying quality continuing professional education providers that meet nationally accepted standards for development, presentation, measurement and reporting of educational programs. The Association also provides a public forum to facilitate discussion and provide information and support to Boards of Accountancy in their regulatory and enforcement roles.

The Association is the sole member of the NASBA Center for the Public Trust ("CPT"), a subsidiary nonprofit, public benefit corporation. The Association is also the sole member of Aequo International, LLC ("Aequo"), a Delaware single-member limited liability company.

Note 2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation

Included in these consolidated financial statements are the accounts of CPT and Aequo. All inter-entity accounts and transactions of the Association and its subsidiaries (collectively "NASBA") are eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash equivalents include investments in money market funds and U.S. Government obligations with original maturities, or remaining maturities when acquired, of 90 days or less. Cash and cash equivalents are maintained at a level to meet anticipated operating needs in financial institutions which management believes are financially strong. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. From time to time, cash and cash equivalents exceed FDIC limits. At July 31, 2019, the portion of the balance exceeding the FDIC insurance limits is approximately \$200,000.

Receivables and credit policies

Receivables are generally uncollateralized obligations arising from various contractual agreements for examination services. Collection is anticipated within 30 days unless otherwise specified. Receivables also include unconditional written promises to contribute to CPT ("pledges") which are recorded in the year the promise is made. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Contributions receivable are discussed more fully in Note 4.

The carrying amount of all receivables is evaluated and reduced by a valuation allowance, if necessary. The need for an allowance is determined based on management's knowledge of its customers, contributors, historical loss experience and existing economic conditions. Management has determined that no allowance is required at July 31, 2019 or 2018.

Prepaid expenses

Prepaid expenses consist primarily of prepaid insurance premiums, equipment maintenance contracts, subscription services, and travel and meeting costs. The asset is expensed in the period to which the benefit applies.

Note 2. Significant Accounting Policies (Continued)

Investment securities

NASBA generally invests all resources in excess of anticipated working capital requirements in U.S. Treasury and Federal Agency obligations, corporate obligations, certificates of deposit, fixed income and equity investment funds, and pooled accounts which may contain diversified investments. Investments are made in accordance with an investment policy approved by the Board of Directors. Under the investment policy, the investment securities are required to meet certain criteria as to allowable asset classes and the composition of investments within those classes. Risk characteristics of the portfolio are managed via three primary asset classes of equity, fixed income and diversified investments. The diversified asset class contains investments whose returns generally are not correlated with those of the equity and fixed income asset classes. The diversified asset class is intended to provide risk-versus-return characteristics that are beneficial to the portfolio. NASBA's investments are carried at fair value. These investments are discussed more fully in Note 5.

CPT's donor-restricted endowment funds are invested in accordance with an investment policy approved by the CPT Board of Directors and are generally invested in fixed income and equity investment funds.

Securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with investment securities, it is reasonably possible that changes in their value will occur in the near term and that such changes could be material to the consolidated financial statements.

Investment in affiliate

NASBA's investment in an affiliate was accounted for under the equity method until January 5, 2018. Subsequent to this date, the investment is accounted for under the cost method. Under the equity method, the investment was carried at the initial fair value recorded, increased for additional capital contributions, adjusted for the proportionate share of the investee's income, losses and distributions, and increased by gains or reduced by losses arising from the issuance of additional ownership units by the investee. Upon conversion to the cost method, the initial basis of the investment is the amount recorded as of January 5, 2018. This investment is discussed more fully in Note 7. The carrying value of the investment is assessed annually and if an indicator of a loss in value is present, an adjustment is made to record the loss if deemed other than a temporary decline.

Property and equipment

Property and equipment acquired are stated at cost. Assets are either depreciated using the straight-line method over their estimated useful lives or, in the case of leasehold improvements, amortized over the shorter of their useful life or the term of the lease. The estimated useful lives range from 2 to 5 years for office and computer equipment and 8 to 12 years for furniture. The cost of property and equipment is recorded in the consolidated statements of financial position until the asset is disposed. Repair and maintenance costs are expensed as incurred. Property and equipment are discussed more fully in Note 8.

Software development costs

Costs associated with the development of software for internal use are capitalized and amortized over the software's useful life which range from 5 to 12 years. Amortization begins when the software is ready for its intended use. Software development costs are recorded in the consolidated statements of financial position until the software is no longer used. Software development costs are discussed more fully in Note 9.

Realization of long-lived assets

Long-lived assets, which include property, equipment and software development costs, are reviewed for impairment. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, the asset is adjusted to its estimated fair value.

Net assets

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

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Note 2. Significant Accounting Policies (Continued)

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All net assets with donor restrictions are associated with CPT and are discussed more fully in Note 11.

Revenue recognition

Examination and licensing program fees are recognized as revenue when the services to which they relate have been completed. Fees for services provided over a period of time are recognized ratably during the period. Fees for conferences and meetings, and related expenses, are recognized when the event occurs. Fees received in advance for services that will be performed in future periods are included in deferred revenue. Unconditional contributions to CPT are recognized as revenue when the contribution or pledge is received.

Management and administrative costs

Management and administrative costs are allocated to program expenses based principally on the personnel devoted to the program.

Income taxes

The Association is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(6) and applicable state tax statutes. CPT is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and applicable state tax statutes. The Association and CPT are subject to tax on any income unrelated to their exempt purposes, unless that income is otherwise excluded by the Internal Revenue Code. Aequo has elected to be taxed as a corporation. Aequo accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the estimated tax benefit of carryforwards and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Valuation allowances are provided if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Income taxes are discussed more fully in Note 16.

Contributed services

Many individuals contribute significant amounts of time to NASBA's activities. The value of these individuals' services is not recorded in the consolidated financial statements because such services would typically not be purchased by NASBA if they had not been provided by contribution. Meeting and travel expenses for these individuals are reimbursed.

Reclassification

Certain prior year information has been reclassified to conform to the current year presentation.

New accounting pronouncement

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, *Compensation— Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost (credit) are required to be presented in the consolidated statement of activities separately from the service cost component and outside a subtotal of income from operations or similar measurement. The standard is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. NASBA adopted ASU 2017-07 effective August 1, 2018. Retrospective application was made in the consolidated financial statements. Components of the net benefit cost (credit) other than the service cost previously presented in program expenses are now presented as a separate line item after excess (deficit) of program revenue over (under) expenses. There were no other impacts on the consolidated financial statements for fiscal 2019 and 2018.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in ASU 2018-13 modify the disclosure requirements on fair value measurements. The standard is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. NASBA adopted ASU 2018-13 effective August 1, 2018. Retrospective application was made in the consolidated financial statements. Aside from changes in the disclosures related to Level 3 investment securities, there were no other impacts on the consolidated financial statements for fiscal 2019 and 2018.

Note 2. Significant Accounting Policies (Continued)

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20) Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in ASU 2018-14 modify the disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. The standard is effective for fiscal years ending after December 15, 2021 with early adoption permitted. NASBA adopted ASU 2018-14 effective August 1, 2018. Retrospective application was made in the consolidated financial statements. Aside from changes in the disclosures related to the defined benefit postretirement plan, there were no other impacts on the consolidated financial statements for fiscal 2019 and 2018.

Note 3. Restructuring of Information Technology Services

Effective November 7, 2018, NASBA entered into a multi-year Managed IT Services Agreement ("IT Agreement") to outsource most of the information technology services to a vendor. Under the IT Agreement, the vendor will perform the application and infrastructure services. While NASBA has certain termination options under the contract, if not terminated early, the aggregate contractual payments due would be \$37,633,000 (including cost of living adjustments) over the term of the contract.

During fiscal 2019, NASBA incurred nonrecurring transition costs related to the restructuring of its information technology services in the amount of \$1,208,000. These costs include legal fees, severance and retention costs, and other personnel and consulting expenses. These expenses are shown separately in the consolidated statements of activities and consolidated statements of functional expenses.

Note 4. Contributions Receivable

Contributions receivable consisting of pledges to CPT at July 31, 2019 and 2018 total \$30,000 and \$49,000, respectively. These amounts are due in less than one year at their respective dates. Contributions receivable are included in Receivables in the consolidated statements of financial position.

Note 5. Fair Value Measurement

Authoritative guidance clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures for fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to Level 1 inputs that represent unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are directly or indirectly observable inputs other than quoted prices included in Level 1. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs and have the lowest priority.

At July 31, 2019 and 2018, the valuation method used to determine fair value for Level 1 investment securities is the last reported sales price on the last business day of the fiscal year reported by the active markets in which the individual securities are traded. The valuation methods used for Level 2 investment securities are estimates using market-based measurements, such as quoted prices for similar assets, executed trades and yield curves, for U.S. Government and other debt obligations and, for managed pool accounts, the net asset value ("NAV") as reported by the investment company which is derived from the value of the underlying investments. The valuation method used in forming the basis for reporting the estimated fair value of Level 3 investment securities includes the discounted cash flow method and/or a capitalization rate of return analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets, adjusted for differences between the investment and the referenced comparable, or options pricing models and other similar methods. There have been no changes in the valuation methods used.

Certain investments are measured at NAV as a practical expedient to estimate fair value, and therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Note 5. Fair Value Measurement (Continued)

The fair value of investment securities at July 31, 2019 is as follows:

(In thousands)	Level 1	Level 2	Level 3	Total
Assets in the Fair Value Hierarchy:				
Mutual Funds				
Equity securities	\$ 13,609	\$ -	\$ -	\$ 13,609
Fixed income securities	3,060	-	-	3,060
Diversified investments	1,401	-	-	1,401
Money market	1,315	-	-	1,315
Total mutual funds	19,385			19,385
Exchange-traded Funds				
Equity securities	1,335	-	-	1,335
Total exchange-traded funds	1,335			1,335
Separately Managed Accounts				
Equity securities	2,613	-	-	2,613
Fixed income securities	2,332	-	-	2,332
Total separately managed accounts	4,945			4,945
U.S. Government and Other Debt Obligations				
Certificates of deposit	-	2,419	-	2,419
Treasury securities	-	2,315	-	2,315
Federal agency securities	-	2,494	-	2,494
Corporate bonds	-	5,025	-	5,025
Total U.S. government and other debt obligations	-	12,253		12,253
Managed Pool Accounts				
Diversified investments	-	582	505	1,087
Total managed pool accounts	-	582	505	1,087
Total assets in fair value hierarchy	\$ 25,665	\$ 12,835	\$ 505	39,005
Investments measured at NAV as a practical expedient:				
Diversified investments				2,175
Total Investment Securities				\$ 41,180

The fair value of investment securities at July 31, 2018 is as	IOIIOWS	:						
In thousands)		Level 1		Level 2		Level 3		Tota
Assets in the Fair Value Hierarchy:								
Mutual Funds	•	10.000	<i>•</i>		•		.	10.00
Equity securities	\$	13,608	\$	-	\$	-	\$	13,60
Fixed income securities		3,974		-		-		3,97
Diversified investments		1,342		-		-		1,34
Total mutual funds		18,924		-		-		18,92
Exchange-traded Funds								
Equity securities		1,594		-		-		1,59
Total exchange-traded funds		1,594		-		-		1,59
Separately Managed Accounts								
Equity securities		2,423		-		-		2,42
Fixed income securities		1,964		-		-		1,96
Total separately managed accounts		4,387		-		-		4,38
U.S. Government and Other Debt Obligations								
Certificates of deposit		-		2,144		-		2,14
Treasury securities		-		1,745		-		1,74
Federal agency securities		-		2,969		-		2,96
Corporate bonds		-		5,235		-		5,23
Total U.S. government and other debt obligations		-		12,093		-		12,09
Managed Pool Accounts								
Diversified investments		-		699		364		1,06
Total managed pool accounts		-		699		364		1,00
Fotal assets in fair value hierarchy	\$	24,905	\$	12,792	\$	364		38,0
nvestments measured at NAV as a practical expedient:								
Diversified investments								1,9
Fotal Investment Securities							\$	40,03

NASBA has committed to contribute a total of \$750,000 to three separate investment funds which are Level 3 investment securities. Capital contributions were \$124,000 and \$215,000 in fiscal 2019 and 2018, respectively. At July 31, 2019, \$307,000 of the total commitment remains. The commitments expire at various times during the next two years ("commitment period"). These funds have a strategy of investing in real estate, natural resources, power generation assets, financially distressed companies, and other private equity opportunities. Distributions will be made periodically over a period, including extensions, of up to approximately nine years from the end of the commitment period. There were no transfers into or out of Level 3 during fiscal 2019 and 2018.

The managed pool account included in Level 2 investments may be redeemed on a daily basis. The two investments measured at NAV as a practical expedient at July 31, 2019 and 2018 were invested with investment companies in which redemption is typically either permitted on a quarterly basis with written notice no later than the 25th day of the month prior to the redemption date or on a monthly basis with written notice no later than the 25th day of the month. The total amount of all requested redemptions for each period may be limited. For one of the investments, shares that have not been outstanding for at least one year will be repurchased at 95% of the transaction price.

NASBA's nonfinancial assets include property, equipment and software development costs. If certain triggering events occur, a resulting asset impairment would require that the nonfinancial asset be recorded at fair value. During fiscal 2019 and 2018, NASBA did not measure any nonfinancial assets at fair value or recognize any amounts in the consolidated financial statements related to changes in fair value for nonfinancial assets.

Note 6. Liquidity and Availability

The following schedule reflects NASBA's financial assets as of July 31, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of this date.

Annual operating and capital expenditures, along with other liabilities and obligations, are anticipated to be funded primarily through cash received for services. NASBA invests excess cash in both short-term and long-term investment securities based on the anticipated time horizon of general expenditure requirements. As more fully described in Note 5, \$18,960,000 of long-term investment securities at July 31, 2019 are invested in lower risk fixed income and money market securities. In addition, \$21,715,000 are in securities which could be liquidated within one year. If circumstances required expenditures that could not be funded through current financial assets, investment securities could be sold to meet the need. The remaining \$505,000 is invested in securities with redemption limitations.

(In thousands)	
Cash and cash equivalents Receivables	\$ 5,911
Investment securities, at fair value	1,283 41,180
Investment in affiliate Endowment fund (included in Other assets)	884 117
Total financial assets	49,375
Investment securities with liquidity horizons greater than	45,575
one year	(505)
Investment in affiliate Donor-imposed restrictions on CPT financial assets	(884) (187)
Financial assets available to meet cash needs for general	(107)
expenditures within one year	\$ 47,799

Note 7. Investment in Affiliate

NASBA had a 20% interest in a limited liability company ("LLC"). On January 5, 2018, NASBA's interest was reduced to approximately 7% as a result of an acquisition by the LLC wherein additional units were issued to the sellers of the acquired company, as well as the existing majority unit holder. As a result of the issuance of additional units, a gain of \$458,000 was recorded related to the dilution of NASBA's ownership interest. Consequently, due to the loss of the ability to exercise significant influence over operating and financial policies, the investment in affiliate ceased to be accounted for as an equity-method investment. NASBA's share of the affiliate's cumulative net losses is recorded through January 5, 2018. After this date, the investment in affiliate is accounted for as a cost method investment. The balance of \$884,000 at July 31, 2019 and 2018 is comprised of the following in thousands:

Initial carrying value	\$ 1,000
Additional capital contributions	500
Share of the affiliate's cumulative net losses	(691)
Gain recognized from issuance of units	458
Other	(383)
Total Investment in Affiliate	\$ 884

Note 8. Property and Equipment

Property and equipment at July 31 consists of the following:

(In thousands)	2019	2018
Office and computer equipment	\$ 2,566	\$ 2,700
Furniture	1,941	1,915
Building and leasehold improvements	4,402	4,502
Total Property and Equipment	8,909	9,117
Accumulated depreciation and amortization	(3,481)	(2,980)
Net Property and Equipment	\$ 5,428	\$ 6,137

Note 9. Software Development Costs

The estimated amortization expense of software development costs for the succeeding five fiscal years at July 31, 2019 is as follows in thousands:

Fiscal 2020	\$ 999	In July 2017, NASBA entered into an agreement with a vendor for the reimbursement of certain costs
Fiscal 2021	988	associated with an in-progress software development project. Of the total amount, \$813,000 was for
Fiscal 2022	972	capitalized software development costs. The reimbursed amount was received in August 2017.
Fiscal 2023	972	
Fiscal 2024	972	

Note 10. Other Long-term Liabilities

Other long-term liabilities at July 31 consist of the following:

(In thousands)	2019	2018
Accrued rent payable	\$ 1,463	\$ 1,443
Deferred rent credit	824	934
Accumulated postretirement benefit obligation	299	242
Total Other Long-term Liabilities	\$ 2,586	\$ 2,619

Note 11. Net Assets With Donor Restrictions

Net assets with donor restrictions at July 31 have donor-imposed restrictions as follows:

(In thousands)	2019	2018
Time-restricted endowment investment income	\$ 24	\$ 21
Purpose-restricted	70	93
Endowment fund	93	93
Total Net Assets With Donor Restrictions	\$ 187	\$ 207

In accordance with the Uniform Prudent Management of Institutional Funds Act, the contributions received for the endowment fund are included in net assets with donor restrictions.

Net assets without donor restrictions include the net assets without donor restrictions of CPT, which as of July 31, 2019 and 2018, respectively, are \$322,000 and \$161,000.

Note 12. Agreements to Provide Examination Services

Effective December 31, 2009, NASBA entered into an amended and restated agreement (the "Domestic Agreement") with Prometric, Inc. ("Prometric"), a company that provides technology-enabled testing services, and the American Institute of Certified Public Accountants ("AICPA") to jointly deliver a computerized uniform CPA examination (the "examination"). The Domestic Agreement currently expires on December 31, 2024. The initial term, number of renewal options and renewal terms for each party to the Domestic Agreement are as follows:

Parties to the Agreement	Initial Term	Number of Renewal Options	Renewal Term
NASBA and AICPA	15 years	Unlimited	2 years
NASBA, AICPA, and Prometric	5 years	2 years	5 years

Under the terms of the Domestic Agreement, NASBA operates and maintains a National Candidate Database which serves as a gateway for all examination candidates. The Domestic Agreement allows for NASBA to recover, through fees charged directly to CPA examination candidates, all National Candidate Database costs, including development, and the costs of providing grade reporting and examination review services.

Effective January 1, 2013, NASBA entered into an amended and restated agreement (the "International Agreement") with the AICPA to allow the examination to be delivered by Prometric in international locations. In addition, effective August 1, 2013, NASBA and AICPA entered into an agreement (the "CBT International Agreement") with Prometric for the delivery of the examination in certain international locations. Under the terms of the International Agreement and CBT International Agreement, NASBA provides similar services as provided in the Domestic Agreement. The International Agreement and the CBT International Agreement have the same term and renewals as the Domestic Agreement.

Note 12. Agreements to Provide Examination Services (Continued)

NASBA also collects the Prometric and AICPA fees from candidates related to the examination. These funds are held in escrow accounts and are disbursed when services are provided. At July 31, 2019 and 2018, these escrow funds amounted to approximately \$23,000,000 and \$26,000,000, respectively. These funds are held in depository accounts and U.S. Treasury notes. At July 31, 2019, no portion of the escrow funds balance held in depository accounts exceeded FDIC insurance limits. Escrow funds and the related obligations are not reported in the consolidated financial statements because they do not represent assets or obligations of NASBA.

Note 13. Retirement Plan and Other Postretirement Benefits

NASBA maintains a 401(k) plan which allows employee and employer contributions for all full-time employees meeting specified requirements. Expenses related to NASBA's funding of the retirement plan amounted to \$717,000 and \$822,000 for fiscal 2019 and 2018, respectively. NASBA funds its obligation through annual contributions made after the end of the December 31 plan year and generally pays all fees related to the plan.

NASBA has made available limited postretirement medical benefits for certain management-level employees with five years of service and a minimum age of 60. At July 31, 2019 and 2018, the accumulated postretirement benefit obligation was determined by an independent actuarial valuation to be \$309,000 (\$299,000 noncurrent and \$10,000 current) and \$253,000 (\$242,000 noncurrent and \$11,000 current), respectively, and is included in the consolidated statements of financial position.

The following table sets forth the components of net periodic postretirement benefit cost and the change in the benefit obligation:

(In thousands)	2019	2018
Components of net periodic cost:		
Service cost	\$ 19	\$ 18
Interest cost	9	8
Actuarial (gain) loss	36	(15)
Net periodic cost	64	11
Plan participants' contributions	8	5
Benefits paid	(16)	(9)
Net change in benefit obligation	56	7
Benefit obligation at beginning of year	253	246
Benefit Obligation at End of Year	\$ 309	\$ 253

The discount rate used to value the obligation was 2.89% in fiscal 2019 and 3.77% in fiscal 2018. The assumed medical trend rate is 7.5% graded uniformly to 6.75% over a period of 3 years and the assumed dental trend rate is 4% per annum.

The obligation will be funded on a cash basis through partial payment of medical insurance plan premiums for a five-year period at each eligible

Fiscal 2020	\$ 10
Fiscal 2021	15
Fiscal 2022	20
Fiscal 2023	24
Fiscal 2024	29
Fiscal 2025 through 2029	156

employee's retirement date. Employer contributions were \$8,000 and \$9,000 in fiscal 2019 and 2018, respectively. The table shows approximate actuarial projections of expected future postretirement benefit payments in thousands.

Note 14. Capital Lease

NASBA is obligated at July 31, 2019 with a future minimum lease payment of \$1,000 of which the entire amount is current. This lease expires August 2019. The amortized cost of the office equipment under this capital lease is \$1,000 at July 31, 2019.

Note 15.	Commitments
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Fiscal 2020 Fiscal 2021 Fiscal 2022 Fiscal 2023 Fiscal 2024 Thereafter	\$	1,681 1,722 1,764 1,738 1,591 5,769
Minimum Lease Payments	\$	14,265
	Fiscal 2021 Fiscal 2022 Fiscal 2023 Fiscal 2024	Fiscal 2021 Fiscal 2022 Fiscal 2023 Fiscal 2024 Thereafter

straight-line basis over the terms of the leases. Minimum lease payments are shown in the table in thousands:

Net rent expense charged to operations for office space in fiscal 2019 and 2018 totaled \$1,649,000 and \$1,636,000, respectively.

In addition to commitments for office space, NASBA has a commitment for information technology hosting services for fiscal 2020, 2021 and 2022. The commitment for this service is \$675,000 each fiscal year. Also, NASBA has a commitment for a subscription service beginning in fiscal 2020 through fiscal 2025. The commitment for fiscal 2020 is \$16,000 and \$41,000 each fiscal year thereafter.

Note 16. Income Taxes

The actual income tax benefit for Aequo differs from the amounts computed by applying the U.S. federal income tax rate to income before income taxes as a result of the following:

(In thousands)	2018	2018
Statutory federal income tax benefit State income taxes Decrease in deferred tax asset due to	\$ (35) (10)	\$ (63) (13)
income tax rate reduction Change in valuation allowance Other	- 41 4	126 (46) (4)
Income Tax Benefit	\$ -	\$ -

The deferred income tax asset consists of the following:

(In thousands)	2019	2018
Deferred income tax asset Valuation allowance	\$ 309 (309)	\$ 268 (268)
Deferred Income Tax Asset	\$ -	\$ -

At July 31, 2019, Aequo had federal and state net operating loss carryforwards of \$1,116,000. The carryforwards expire at various dates beginning July 31, 2035 for federal tax purposes and July 31, 2030 for state tax purposes. The deferred tax asset relates primarily to federal and state net operating loss carryforwards. The valuation allowance is provided primarily for the net operating loss carryforwards that may not be realized.

On December 22, 2017, the Tax Cuts and Jobs Act ("Act") was signed into law. Among other provisions, the Act reduces the Federal statutory corporate income tax rate from 35% to 21%. The provision for income taxes for Aequo for fiscal 2018 reflects the one-time impact of the revaluation of deferred tax assets and liabilities to reflect the new lower rate. The Act resulted in a \$126,000 decrease in the deferred tax asset for fiscal 2018, which was offset by a corresponding change in the deferred tax asset valuation allowance.

NASBA has adopted the recognition requirements for uncertain income tax positions and believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on NASBA's financial position, results of operations or cash flows. Accordingly, NASBA has accrued no interest or penalties related to uncertain tax positions at July 31, 2019 and 2018. It is NASBA's policy to recognize interest and penalties related to income tax matters in other expense. In general, NASBA is no longer subject to examinations by tax authorities for U.S. federal and state income tax returns before fiscal 2016.

Note 17. Subsequent Events

Management has evaluated all material events and transactions that occurred from July 31, 2019 through September 19, 2019, which is the date that the consolidated financial statements were available to be issued. There were no material subsequent events that required adjustments to or disclosure in the consolidated financial statements.

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