

NASBA

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY



evolve

ANNUAL REPORT 2016

EVOLVE

“Culture does not change because we desire to change it. Culture changes when the organization is transformed; the culture reflects the realities of people working together every day.”

— Frances Hesselbein, Former CEO of the Girl Scouts of the USA

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 ethical behavior through business and leadership.

This annual report illustrates the numerous ways in which NASBA continues to evolve in supporting Boards of Accountancy and shaping the future of 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

In 2016, NASBA met or surpassed all of our strategic goals, initiatives and infrastructure objectives while remaining steadfastly focused on our mission: “To enhance the effectiveness and advance the common interests of the Boards of Accountancy.” Significant investments were expended to modernize and make improvements in our offices and working space, including updates to our technology and resources. These changes will improve the efficiencies and quality of work produced at NASBA. Our enhanced financial position has given us unprecedented opportunities and capabilities to provide products and services in support of Boards of Accountancy. In a rapidly changing profession, it is critical that Boards of Accountancy have the tools, resources and support to maintain their capacity and remain vigilant in effectively regulating the accounting profession. NASBA is dedicated to ensuring that Boards of Accountancy remain effective, now and in the future.

The theme of this year’s Annual Report and Annual Meeting is: *Evolve*, a single word, but a powerful concept that is often challenging for individuals and organizations to embrace. The ability to evolve is much more than just changing, it is also about adapting and progressing. In nature, failure to evolve may result in extinction. Similarly, the Boards of Accountancy and NASBA must evolve to keep pace with a changing profession or face the prospect of the current regulatory structure becoming irrelevant. The Annual Report highlights numerous ways NASBA’s mission has evolved over the past year, in support of Boards of Accountancy and the accounting profession. The Annual Meeting agenda addresses elements of a rapidly changing accounting world, and we will discuss how we need to evolve to ensure the public is protected.

NASBA continues to prioritize the importance of our relationship with Boards of Accountancy. Building strong and trusting relationships through staff and volunteer communications allows us to continually reassess the ways NASBA can better support Boards of Accountancy. More importantly, the public benefits when Boards of Accountancy are well informed, prepared and have the adequate tools and resources necessary for their role in public protection. We are all appreciative of the continued support and confidence we receive from across the country.

NASBA’s success is implicitly linked to the quality of our volunteers. Our network of Board of Accountancy members, former board members, board staff and other stakeholders, provide countless hours of invaluable knowledge by participating in committees, task forces, governance and standard setting bodies. It would be difficult to articulate the tremendous worth that our volunteers provide to the profession and the public.

NASBA must remain financially viable to continually ramp up the support we provide Boards of Accountancy. We again ended our fiscal year with positive results greater than budgeted. In 2016, we set a new record level of direct support to Boards of Accountancy, completed major infrastructure improvements and enhanced service capabilities, and were still able to increase our monetary reserves. NASBA’s strong financial status is vital for meeting expectations and our contractual responsibilities. NASBA remains well prepared for the future as we work to continually improve the efficiencies of our operations. NASBA’s recent new business developments, particularly in the international arena, have been successful financially and in the creation of new relationships, which are important for future strategies.


NASBA’s ethics arm, the Center for the Public Trust (CPT), maintained tremendous momentum this year. The growth and importance of StudentCPT chapters across the United States, and the impact on the lives of so many of tomorrow’s business leaders, makes the CPT an important element of meeting our mission. New services such as the Ethical Leadership Training & Certification Program will augment the public good while providing a new revenue stream. The leadership of NASBA is proud of its investment in the CPT.

NASBA ended 2016 as a financially strong, relevant and globally-recognized organization. We continue to take on challenging issues such as diversity, educational change, and the promotion and use of confusing credentials. We have updated and increased our information technology systems and capabilities. We continue to build an amazing and capable staff that is well educated, diverse, multilingual and most importantly, dedicated to the support of Boards of Accountancy.

Thank you for the continued support and trust you have placed in the leadership, volunteers and staff of NASBA.



Donald H. Burkett, CPA
Chair, 2015-2016



Ken L. Bishop
President & Chief Executive Officer



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



From left to right: Ken L. Bishop, Colleen K. Conrad, CPA and Donald H. Burkett, CPA

2015 - 2016

BOARD OF DIRECTORS

OFFICERS

Donald H. Burkett, CPA (SC)
Chair

Telford A. Lodden, CPA (IA)
Vice Chair

Walter C. Davenport, CPA (NC)
Past Chair

Laurie J. Tish, CPA (WA)
Secretary

E. Kent Smoll, CPA (KS)
Treasurer

DIRECTORS-AT-LARGE

A. Carlos Barrera, CPA (TX)
Director-at-Large

Jimmy E. Burkes, CPA (MS)
Director-at-Large

Tyrone E. Dickerson, CPA (VA)
Director-at-Large

Janice L. Gray, CPA (OK)
Director-at-Large

Raymond N. Johnson, CPA, Ph.D. (OR)
Director-at-Large

Harry O. Parsons, CPA (NV)
Director-at-Large

Richard N. Reisig, CPA (MT)
Director-at-Large

REGIONAL DIRECTORS

J. Coalter Baker, CPA (TX)
Southwest Regional Director

Maria E. Caldwell, CPA (FL)
Southeast Regional Director

John F. Dailey, Jr., CPA (NJ)
Northeast Regional Director

W. Michael Fritz, CPA (OH)
Great Lakes Regional Director

Sharon A. Jensen, CPA (MN)
Central Regional Director

Edwin G. Jolicoeur, CPA, CFE (WA)
Pacific Regional Director

Stephanie S. Saunders, CPA (VA)
Middle Atlantic Regional Director

Benjamin C. Steele, CPA (NV)
Mountain Regional Director

EXECUTIVE DIRECTORS' LIAISON

James Corley, CPA (AR)

NASBA STAFF

Ken L. Bishop
President & CEO

Colleen K. Conrad, CPA
Executive Vice President & COO

Noel L. Allen, Esq. (NC)
Outside Legal Counsel



NASBA BOARD OF DIRECTORS 2015-16 – Bottom row (left to right): Stephanie S. Saunders (VA) Middle Atlantic Regional Director; Benjamin C. Steele (NV) Mountain Regional Director; Maria E. Caldwell (FL) Southeast Regional Director; Walter C. Davenport (NC) Past Chair; Ken L. Bishop, President & CEO; Donald H. Burkett (SC) Chair; Telford A. Lodden (IA) Vice Chair; Sharon A. Jensen (MN) Central Regional Director; John F. Dailey, Jr. (NJ) Northeast Regional Director; Colleen K. Conrad, Executive Vice President & COO; Jimmy E. Burkes (MS) Director-at-Large; Top row (left to right): Noel L. Allen (NC) Outside Legal Counsel; Richard N. Reisig (MT) Director-at-Large; Tyrone E. Dickerson (VA) Director-at-Large; Raymond N. Johnson (OR) Director-at-Large; Laurie J. Tish (WA) Secretary; Kent E. Smoll (KS) Treasurer; W. Michael Fritz (OH) Great Lakes Regional Director; J. Coalter Baker (TX) Southwest Regional Director; Janice L. Gray (OK) Director-at-Large; A. Carlos Barrera (TX) Director-at-Large; James Corley (AR) Executive Directors' Liaison; Edwin G. Jolicoeur (WA) Pacific Regional Director; Harry O. Parsons (NV) Director-at-Large.

EVERY EMPLOYEE IS DEDICATED TO THE MISSION OF SUPPORTING NASBA'S MEMBER BOARDS

STAFF DIRECTORS

Alfonzo Alexander	Chief Relationship Officer, NASBA; President, NASBA Center for the Public Trust
Ed Barnicott	Vice President, Strategic Planning & Program Management
Michael R. Bryant, CPA	Senior Vice President & Chief Financial Officer
Maria-Lisa Caldwell, Esq.	Chief Legal Officer and Director, Compliance Services
Chris Clark	Director, Infrastructure Services
Colleen K. Conrad, CPA	Executive Vice President & Chief Operating Officer
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 Information Officer
Rebecca Gebhardt	Associate Director, Regulatory Compliance Programs
Roy Hall	Chief Information Security Officer
Patricia Hartman	Director, Client Services
Brentni Henderson	Associate Director, Business Development & Research
Shawn Jackson, CPA	Associate Director, CPA Exam Review Board
John Johnson	Director, Legislative & Governmental Affairs
Thomas Kenny	Director, Communications
Jessica Luttrull, CPA	Associate Director, National Registry
Nigyar Mamedova, CPA	Director, Technical Research
Chris Mays	Associate Director, Client Services
Sheena Murphy, CPA	Director, CPA Exam Review Board
Jeff Oliver	Director, Software Services
James Suh	President & CEO, Aequo International; Director, Continuous Improvement & Analytics, NASBA
Troy A. Walker, CPA	Director, Finance & Controller

VOICES IN THE ACCOUNTING WORLD

2015 - 2016

NASBA REPRESENTATIVES

SERVING ON REGULATORY BODIES &
PROFESSIONAL ACCOUNTING ORGANIZATIONS

AICPA Accounting and Review Services Committee

Jimmy Burkes

AICPA Auditing Standards Board

Elizabeth Gantnier

Gaylen Hansen

Marsha Marien

Joshua Partlow

Richard Reisig

Chad Singletary

AICPA Board of Examiners

Michael Daggett (Vice Chair)

Barry Berkowitz

Allan Cohen

Jeanne Dee

Miley W. (Bucky) Glover

Roberta Newhouse

Ola Smith

Dan Sweetwood

Thomas Winkler

AICPA Board of Examiners Content Subcommittees

Steve DelVecchio

Jeanne Dee

Ken Odom

Thomas Winkler

AICPA Board of Examiners State Board Committee

Roberta Newhouse (Chair)

James Corley

David deSilva

James Gottfried

Pamela Ivey

Veloria Kelly

Ying Sa

Willie Sims

AICPA National Peer Review Committee

Mark Hobbs

Arthur Sparks

AICPA Peer Review Board

G. Alan Long

AICPA Professional Ethics Executive Committee

Carlos Barrera

Richard David

Janice Gray

Laurie Tish

Financial Accounting Foundation

Diane Rubin

IAASB Consultative Advisory Group

Gaylen Hansen

IEASB Consultative Advisory Group

Dr. Raymond Johnson

IESBA Consultative Advisory Group

Gaylen Hansen

COMMITTEES

Regarded as a cornerstone of support within the organization, NASBA appoints approximately 30 committees and task forces annually. Through the work of these committees, NASBA volunteers and staff address current and emerging issues affecting State Boards of Accountancy. Topics range from ethics, education and global regulation in accounting principles to the development of model rules for the member boards' consideration. On the following pages, the committees provide reports from their work during 2015-16.

ALD/CPAverify Committee

Administration and Finance Committee

Audit Committee

Awards Committee

Bylaws Committee

CBT Administration Committee

Communications Committee

Compliance Assurance Committee

Continuing Professional Education (CPE) Committee

CPA Examination Review Board

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 Advisory Committee

State Society Relations Committee

Uniform Accountancy Act Committee

THE EVOLUTION OF INFORMATION SHARING

ACCOUNTANCY LICENSEE DATABASE/CPAVERIFY COMMITTEE

Serve as an Advisory Committee to support the ongoing operations of the Accountancy Licensee Database (ALD) and corresponding CPAVerify resources and initiatives.

In January, the ALD and CPAVerify.org integrated data from the 51st State Board of Accountancy. As a result, there are now only four boards left to complete full participation. Of the remaining four, two boards have implementations underway, and two are fully committed and working toward participation. The Committee has continued to advise on decisions regarding new initiatives. This year's focus included:

- The announcement of a new, official statistic of total active individual CPAs, a number that is only achievable by leveraging ALD's unique ability to link records across states lines. The announcement included a press release and a permanent location on the nasba.org website that will be updated quarterly.
- Work on policies for the approved uses of the ALD as well as an approval process for new requests to secure authorization from the Committee, NASBA leadership and Boards of Accountancy, as needed.
- Data collection campaign to have Employer Identification Number (EIN) added to ALD feeds to cross reference firm data in ALD with peer review data in the Facilitated State Board Access (FSBA) database to offer efficiencies to boards with regard to Peer Review compliance.
- The first initiative of leveraging data from Federal Agencies and the ALD to bolster the boards' enforcement efforts involving PCAOB sanctions and Board of Accountancy actions available on CPAVerify.org.
- Completion of a 2020 Vision document that outlines the Committee's vision for the future of the ALD tool and its data.

Chair:

Laurie J. Tish (WA)

Members:

Margaret Combs (KY)

Ryan S. Cook (MO)

Clifford Cooks (DC)

R. Garth Ferrell (CO)

Ransom Jones (MS)

Jeffrey J. Truitt (NC)

Viki A. Windfeldt (NV)

Staff Liaison:

Rebecca Gebhardt

ADMINISTRATION AND FINANCE COMMITTEE

Oversee and monitor the fiscal operations of the Association. The treasurer shall serve as chair of the Administration and Finance Committee.

Chair:

E. Kent Smoll (KS)

Members:

A. Carlos Barrera (TX)

Robert B. Cagnassola (NJ)

Lori J. Druse (NE)

Telford A. Lodden (IA)

Theodore W. Long, Jr. (OH)

David L. Miller (MS)

Staff Liaisons:

Michael R. Bryant

Troy Walker

The Administration and Finance Committee monitors and provides oversight of the fiscal operations of NASBA, Aequo International and the NASBA Center for the Public Trust. Aequo International 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 functions as an integral part of NASBA's ethics activities related to its mission. E. Kent Smoll, CPA, NASBA Treasurer, is serving his fourth year as chair of the Committee. 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 and 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.

Operational and capital budgets, as approved by the Board of Directors for the fiscal year, were discussed by the Committee with management at quarterly meetings. Through this process, the Committee analyzed variances from the budgets, reviewed Management's Discussion and Analysis of the differences, and ascertained that fiscal activities were on track and appropriately managed. During fiscal 2016, the Administration and Finance Committee received updates on the progress of NASBA's office space renovation, which was completed in June of 2016. Also in June 2016, PCS Holding Company (PHC), of which NASBA is a 20% equity investor, expanded with the acquisition of an association management company. The Committee consulted with management prior to the acquisition in regard to the additional investment NASBA would make to maintain its 20%. Finally, the Committee provided oversight of the budget preparation process and had in-depth discussions with management pertaining to operational budgets, software development projects and other capital investment plans for fiscal 2017.

AUDIT COMMITTEE

Chair:

Jimmy E. Burkes (MS)

Members:

Jeanne M. Dee (MO)

James R. Ladd (WA)

James R. Mintert (MO)

Thomas G. Prothro (TX)

M. Chad Singletary (AL)

Staff Liaisons:

Michael R. Bryant

Troy Walker

From Section 8.5 of the Bylaws: The Audit Committee shall oversee the Association's annual financial statement audit and internal controls, and shall recommend to the Board of Directors the firm to perform the audit. The Audit Committee shall receive the annual audited financial statements and the auditor's report thereon, consider the items of internal accounting control that arise from the audit process, and make a recommendation regarding the annual audited financial statements and the auditor's report thereon, to the Board of Directors.

The Report of the Audit Committee, found on page 50, summarizes the activities of the Committee in discharging this responsibility.

AWARDS COMMITTEE



Billy M. Atkinson



Robert B. Cagnassola



Jim Abbott

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.

NASBA's 2016 Call for Award Nominations was open April 20 through June 20, 2016. The NASBA Awards Committee met on July 18, 2016, to review the nominations and make recommendations to the 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 2016 award recipients are: Billy M. Atkinson, CPA, of Texas (William H. Van Rensselaer Public Service Award), Robert B. Cagnassola, CPA, of New Jersey (NASBA Distinguished Service Award) and Jim Abbott of North Dakota (Lorraine P. Sachs Standard of Excellence Award).

NASBA will recognize each of these recipients during the 109th Annual Meeting in Austin, TX, October 30 - November 2, 2016.

Chair:

Carlos E. Johnson (OK)

Members:

Bobby R. Creech, Jr. (SC)

Wanda W. Goodson (GA)

Richard Isserman (NY)

Theodore W. Long, Jr. (OH)

Dan Sweetwood (NE)

Staff Liaison:

Cassandra Gray

RECOGNIZING THOSE WHO HAVE
BEEN INSTRUMENTAL IN EVOLVING THE
REGULATION OF THE PROFESSION

BYLAWS COMMITTEE

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

As a result of the significant Bylaws changes recommended by the Bylaws Committee in 2014-15, and subsequently approved by the Board of Directors and the member boards, the Committee in the 2015-16 year was focused on issues that might require future consideration of other Bylaws revisions.

The Committee meetings included consideration of some concerns that had been raised regarding Bylaws Section 4.5.7, requiring that a majority of delegates be maintained on the Board of Directors:

- NASBA's future ability to maintain a delegate majority on the board.
- The limited opportunities for NASBA leadership involvement that may be afforded to some potential candidates from states with relatively short terms on their state boards.

No proposed Bylaws amendments were submitted to the Board of Directors for their consideration. However, the Committee approved a recommendation to the 2016-17 Bylaws Committee for a possible Bylaws revision to consider in the upcoming committee year. Any such changes would require approval by the Board of Directors prior to submission to vote by the member boards.

Chair:

Edwin G. Jolicoeur (WA)

Members:

James J. Carroll (OH)

Richard G. David (MI)

John B. Peace (AR)

Michele M. Stromp (NE)

Staff Liaison:

John Johnson

EVOLVING EXAMINATION ADMINISTRATION

CBT ADMINISTRATION COMMITTEE

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

Chair:

Richard N. Reisig (MT)

Members:

Kent Absec (ID)

Robert N. Brooks (NC)

C. Jack Emmons (NM)

M. A. "Maggie" Houston (OH)

Nicole Kasin (SD)

Dannell R. Lyne (CT)

M. Francis D. L. Quinto Baba (GU)

Randall Ross (OK)

Leslie Schmitz (AK)

Thomas R. Weirich (MI)

Staff Liaisons:

Ed Barnicott

Patricia Hartman

Committee members met with members of the AICPA Examination Team, the Executive Directors Committee and NASBA staff on December 21, 2015, to review the summary and feedback received regarding the AICPA's Invitation to Comment and Exposure Draft, Maintaining the Relevance of the Uniform CPA Examination. The Committee completed its final review of NASBA's response on March 11, 2016.

The Committee met in conjunction with the Executive Directors Committee (via conference call) on May 11, 2016, to review proposed changes to the UAA regarding the Test Administration Model (TAM) and to draft a recommendation to all Boards of Accountancy on handling conditional credit transition for candidates taking the new CPA Exam in 2017. The recommendation was finalized and sent to boards on July 1, 2016. Boards were advised that delays in score releases would occur for the three testing windows following the launch of the next version of the CPA Examination, in April 2017. The Executive Directors Committee and the CBT Administration Committee recommended that boards consider extending to December 31, 2017, the conditional credit of those candidates impacted by the delays in score reporting for the 2Q 2017 launch window.

Lastly, Committee members participated in Board of Examiners (BOE) update calls held March 8, 2016, and June 13, 2016.

administration
UNIFORM review
CHANGE summary
model impact
MEMBERS EXAMINATION
effective and efficient

COMMUNICATIONS COMMITTEE

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

During the 2015-16 committee year, the Communications Committee focused its efforts on increasing Board of Accountancy participation in NASBA's Communications and Outreach program, assessing each board's communications needs and exploring the role of Boards of Accountancy with regard to strengthening the CPA pipeline.

The Committee hosted its annual Communications Breakfast meeting during the 2016 Regional Meetings as a forum for Board of Accountancy and State CPA Society representatives to discuss outreach initiatives and to collaborate on future communications programs.

In addition to hosting the Regional Communications meetings, Committee members participated in NASBA's regional conference calls to assess each board's needs and to promote best practices as they relate to communications and outreach initiatives.

As of September 2016, NASBA's Communications Department is engaged with or providing communications support to 35 Boards of Accountancy. Below, is a listing of the boards currently utilizing the Communications & Outreach program by category.

Chair:
Benjamin C. Steele (NV)

Members:
Jim Abbott (ND)
Sally Flowers (CA)
Cynthia A. Foy (NY)
Regina D. Hunter (MA)
James G. Kelley (IL)
Shelley Laracuenta (IA)
Stephanie S. Saunders (VA)
Judy A. Thomas (CO)

Staff Liaisons:
Cassandra Gray
Thomas G. Kenny

NEWSLETTERS

Arkansas	Montana	South Dakota
Connecticut	Nevada	Tennessee
Georgia	New Jersey	Washington
Hawaii	New Mexico	Washington, D.C.
Illinois	North Carolina	West Virginia
Kansas	Ohio	Wisconsin
Kentucky	Oklahoma	Wyoming
Mississippi	Puerto Rico	

EMAIL CAMPAIGNS

Arkansas	North Carolina
Colorado	North Dakota
Connecticut	Oklahoma
Georgia	Oregon
Illinois	Puerto Rico
Kentucky	South Dakota
Montana	Washington
Nebraska	Wyoming
Nevada	

VIDEOS

Florida
Illinois
Louisiana
North Carolina
Oklahoma
Puerto Rico
Texas
Virginia
Washington
Wyoming

ADDITIONAL COMMUNICATIONS*

Arkansas
Connecticut
Kansas
Nebraska
New Mexico
Oklahoma
Wyoming

**Includes brochures, annual reports and postcards*

COMPLIANCE ASSURANCE COMMITTEE

*Promote effective oversight of compliance with professional standards
by CPAs and their firms.*

Chair:

John F. Dailey, Jr. (NJ)

Members:

Frederick G. Briggs, Jr. (NH)

James P. Gero (OH)

Janice L. Gray (OK)

Mark T. Hobbs (SC)

Stephen F. Langowski (NY)

G. Alan Long (KY)

Michael S. McClure (NE)

John H. Schuyler (CT)

Arthur L. Sparks, Jr. (TN)

Lori Dawn Warden (KY)

Jeremy Watson (AR)

Lawrence A. Wojcik (IL)

Staff Liaison:

Leona Johnson

The Compliance Assurance Committee (CAC) accomplished the following items during the 2015-16 committee cycle:

- Held a kick off meeting on December 9, 2015, in Chicago, IL, to introduce new members and the new chair. The meeting also included brainstorming on how to carry out the Committee charge and a review of the UAA for any additional changes regarding peer review.
- Worked with the AICPA and the UAA Committee to draft recommended edits to the UAA; however, in light of the Evolution of Peer Review Administration document, the CAC has requested the UAA recommended edits be put on hold.
- Responded to the AICPA Exposure Draft, Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews - Improving Transparency and Effectiveness of Peer Review - providing specific feedback on areas of agreement, offering suggestions for clarification in a few areas, and pointing out several areas for further consideration.
- The CAC and NASBA approved and released the 2014-15 Report on Oversight of the National Peer Review Committee (NPRC). The report documents were shared with each board and posted on nasba.org and the PROC Resources webpage.
- Hosted the third and fourth bi-annual PROC/CAC conference call on January 12 and July 19, 2016. Attendance was 30+ and 40+, respectively, for each meeting.
- Participated in the ERC/ALD/CAC Task Force conference calls. Two held so far this year.
- Responded to the AICPA Exposure Draft, Proposed Changes to the AICPA Standards For Performing and Reporting on Peer Reviews – Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program.
- Held breakout sessions at the Regional Meetings to share information on the AICPA Evolution of Peer Review Administration document and to answer questions for boards.
- Held the annual face-to-face CAC meeting on July 13 and attended the Joint AICPA Standards Task Force/NASBA CAC meeting on July 14, 2016; both meetings were held in Durham, SC. Discussions included AICPA Evolution of Peer Review Administration paper; verbal reports from the Regulator Representative on Peer Review Board, NPRC Representatives, and ERC/ALD/CAC Task Force; and discussion of Oversight Considerations in Light of Evolution of Peer Review Administration.
- Responded to the AICPA Exposure Draft, Proposed Changes to the AICPA Standards For Performing and Reporting on Peer Reviews – Modification to Peer Review Report to Specifically Disclose the Selection and Review of Single Audits as Must-Select Engagements.
- Created and distributed a survey to collect board feedback on the AICPA Evolution paper and the future of oversight.
- Working to formulate a response to the AICPA Evolution of Peer Review Administration Supplemental Paper.

CREATING CPE STANDARDS TO SUPPORT EVOLUTION OF LEARNING

CONTINUING PROFESSIONAL EDUCATION (CPE) COMMITTEE

Oversee the CPE Working Group and related Statement on Standards for Continuing Professional Education (CPE) Programs. Also, develop and promote uniform rules and requirements for continuing professional education among the jurisdictions.

The revised Statement on Standards for Continuing Professional Education (CPE) Programs (*Standards*) was presented to and approved by the NASBA and AICPA Boards of Directors on July 22, 2016, and August 4, 2016, respectively. The revised *Standards* became effective September 1, 2016. Among the most significant changes to the *Standards* is the addition of two new instructional delivery methods: nano learning and blended learning.

The *Standards* reference the NASBA Fields of Study document, which was also reviewed and revised. The changes to the Fields of Study document focus on providing categories and descriptions that are more current and relevant than the previous version. The most significant change includes the revisions to the Specialized Knowledge field of study by separating computer science applications and information technology into their own categories, and allowing Specialized Knowledge to consist of topics that are particular to specialized industries or services.

To coincide with the effective date of the *Standards*, on September 1, 2016, NASBA launched NASBAregistry.org (previously learningmarket.org). Created with the user experience in mind, the re-designed website features extensive information about the *Standards*, descriptions and videos highlighting the application process for each of the instructional delivery methods, CPE requirements for each jurisdiction, sponsor profiles, and more. Also, the site's responsive design format provides an optimal viewing and interactive experience, making it easily compatible to desktop, tablet and mobile devices. In addition to the website, the content and functionality of the National Registry application forms have been updated for compliance with the revised *Standards* and to provide for a comprehensive, user-friendly experience.

As reported in the previous year, the CPE Committee approved the recommendation of the CPE Model Rule Task Force for a CPE model rule to maximize CPE regulation, value and compliance. This recommendation was presented to a task force of the UAA Committee and is in process of review and consideration.

The National Registry Summit was held September 12-14, 2016, in Tampa, FL, to a sold out crowd. The Summit, themed "Embrace. Engage. Educate." featured educational and leadership experts on topics that are part of the revisions to the *Standards*. The Summit also provided opportunities for knowledge sharing and networking.

Chair:

Maria E. Caldwell (FL)

Members:

Terry M. Bayless, Sr. (ID)

John F. Dailey, Jr. (NJ)

Gerald E. Denor (WI)

James Gottfried (OH)

Tanya G. Greenlee (SC)

James M. Holland (VA)

Donna J. Hugly (TX)

John McManus (DE)

Faye D. Miller (ND)

Roxanne P. Ostlund (WY)

D. Lynn Smith (ID)

Thomas T. Ueno (HI)

Michael D. Weatherwax (CO)

Staff Liaison:

Jessica Luttrull

OVERSEEING THE EVOLVING UNIFORM CPA EXAMINATION

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.

Chair:
Douglas E. Warren (TN)

Members:
Henry J. Krostich (NY)
Barbara A. Ley (OK)
Wendy S. Perez (CA)
Doug Skiles (NE)

Consultants:
Michael W. Harnish (WA)
Suzanne Lane (PA)

Staff Liaison:
Sheena Murphy

From August 1, 2015 - July 31, 2016, the CPA Examination Review Board (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, 2015.

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 2016 for the work performed during the 2015 calendar year. The ERB stated the results of the 2015 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, 2015."

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.

EVOLVING SERVICE AND LEADERSHIP THROUGH DIVERSITY

DIVERSITY COMMITTEE

Develop a diversity program that ensures the NASBA culture is open and inclusive of women and minorities, and provides opportunities for service and leadership.

The Diversity Committee has met several times by conference call and once in person in Nashville on April 21, 2016.

The Committee's work has continued to focus on monitoring diversity among the Boards of Accountancy and encouraging diversity among NASBA volunteers and leadership. NASBA representatives have attended meetings of the National Association of Black Accountants (NABA) and the PHD Project, of which NASBA is a sponsor.

Preparations are underway for the bi-annual Board Diversity Survey which will be conducted in the summer of 2017. This survey helps NASBA identify changes in the ethnic and gender makeup of the Boards of Accountancy.

During the last member-based, strategic planning cycle, diversity was identified as an important strategic objective for NASBA. As a result of this change, the Committee has become more integrated with the other diversity and inclusion efforts being undertaken by NASBA, including efforts to ensure a diverse pipeline of candidates seeking licensure as CPAs. Additionally, Alfonzo Alexander, NASBA Chief Relationship Officer, was added as an additional staff liaison for the Committee. Mr. Alexander leads the broader diversity efforts at NASBA.

Chair:

Tyrone E. Dickerson (VA)

Members:

Walter C. Davenport (NC)

Linda E. Harris (MT)

Andrea M. Kilmer (VA)

Chandra Lalvani (PA)

Leonard R. Sanchez (NM)

Willie B. Sims, Jr. (MS)

Staff Liaisons:

Alfonzo Alexander

Ed Barnicott

CULTURE DIVERSITY **LEADERS** encourage
committee evolve licensure
pipeline BOA minority effort
CPA women PLAN FOCUS **change**

FOSTERING EFFECTIVE EVOLVING EDUCATION

EDUCATION COMMITTEE

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

Chair:

Raymond N. Johnson (OR)

Members:

Charles H. Calhoun, III (FL)

Ruben A. Davila (CA)

William Dresnack (NY)

Rick Elam (MS)

Kevin M. Fountain (RI)

Daniel L. Fulks (KY)

Carlos E. Johnson (OK)

Rhonda Kodjayan (IL)

Nicholas J. Mastracchio, Jr. (FL)

Marianne Mickelson (IA)

Angela L. Pannell (MS)

Martin Pittioni (OR)

John J. Sheehan (MO)

Staff Liaisons:

Alfonzo Alexander

Brentni Henderson

The Education Committee identified several key initiatives for the group to address during the 2015-16 session, which included understanding evolving educational delivery methodologies, the accreditation process of these methodologies, the CPA Pipeline, increasing diversity in the profession, the value of the additional 30 hours of semester credit required for licensure, and the Pathways Commission recommendations.

The Committee worked diligently to increase awareness and the number of accounting education research grant proposals submitted for consideration, this year. Research grants were awarded to the following institutions: Howard University, Montana State University and Texas Southern University. The Committee decided to extend the grant application period to begin in August 2015 and conclude in April 2016, in order to allow for more professors and postdoctoral researchers to submit grant proposals.

Findings from the 2015 research grant recipients were discussed during the 2016 NASBA Regional Meetings. Grant recipients participated in a panel discussion to apprise NASBA membership of their progress and outcomes. The presenting researchers were from Texas Woman's University: Causal Effect of Changes in Business School Accreditation on CPA Exam Success Rates, and Drexel University: Best Practices for Preparing International Students for the Uniform CPA Examination. The presentations were well-received and sparked numerous discussions. The researchers were asked to continue their work and to keep the profession informed of their progress in identifying best practices and CPA Exam success rate indicators, such as accreditation.

ENFORCEMENT RESOURCES COMMITTEE

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

The Enforcement Resources Committee, led by Chair Harry Parsons, continues to promote enforcement through the distribution of the Enforcement Quarterly Report and the *Enforcement Newsletter*. The Report includes any publicly available disciplinary information from the SEC, PCAOB, IRS and AICPA. The *Enforcement Newsletter* discusses the current enforcement issues facing Boards of Accountancy and highlights tools created by the Committee to assist boards in these areas. The most recent update includes the addition of quizzes for each module within the Investigator Training Series.

The Committee continues to receive quarterly lists of referrals from the Department of Labor (DOL) and works with boards to ensure all referrals were received. Boards are also being encouraged to use the DOL Consent Form or the AICPA Consent Form, developed through this Committee, to share investigation results with these agencies to prevent the duplication of efforts and investigative resources. The 2016 PTIN holder list was obtained from the IRS by FOIA request, separated into jurisdiction-specific lists, and sent to each executive director by email in June 2016. The July *Enforcement Newsletter* included an article providing instructions on running reports from the new Federal Audit Clearinghouse website, rather than sending out the annual report by state. The Committee continues to encourage boards to collect EIN numbers to facilitate digital, cross-referencing data from federal agencies, AICPA and ALD/CPAverify. The Committee also continues to coordinate with the ALD Committee and PROC Committee, through participation in the Joint Task Force.

The Committee developed the Guiding Principles of Enforcement, which were adopted by the California Board as the basis of their legislatively-mandated, substantial equivalency evaluation of enforcement practices among all 55 jurisdictions. Only three jurisdictions remain “undetermined” at this time. This project has benefitted boards by providing leverage to request additional resources from their oversight agencies, and by allowing NASBA to provide additional resources to assist boards, such as probation tools and investigator training evaluations and certificates. Boards are encouraged to provide a disciplinary flag, either in their own licensee look-up tool or through ALD/CPAverify, to provide notice of disciplinary history to consumers, thereby assisting boards with their charge of public protection.

Chair:

Harry O. Parsons (NV)

Members:

W. Barclay Bradshaw (VA)
Larry Brown (OR)
D. Boyd Busby (AL)
Michael M. Guinigundo (OH)
D. Jae Hallett (ID)
Robert J. Helm (MO)
Nicola Neilon (NV)
Emily R. Rollins (WA)
Douglas W. Skiles (NE)
Michael J. Swartz (MI)
Dan Sweetwood (NE)
Patrick M. Thorne (NV)
Michael H. Womble (NC)

Staff Liaison:

Stacey L. Grooms

EVOLVING ENFORCEMENT TO PROTECT THE PUBLIC

GUIDING EVOLVING ETHICS AND PRACTICE

ETHICS COMMITTEE

Promote the development and maintenance of high-quality standards of ethical practice to protect the public interest.

Chair:

Janice L. Gray (OK)

Members:

Ellen K. Adkins (SC)

Catherine R. Allen (NY)

Barry M. Berkowitz (PA)

Jon W. Cain, Sr. (WV)

Robert F. Fay (OH)

Michael T. Gregory (UT)

Sheldon P. Holzman (IL)

Marc Moyers (VA)

Thomas G. Neill (WA)

Michael Nickerson (ME)

Michael Schmitz (ND)

Richard Silverman (NH)

Lydia M. Washington (NY)

Alan Wilensky (MN)

Staff Liaison:

Ed Barnicott

During the 2016 committee year, the Ethics Committee has been focused on responding to exposure drafts released by the IESBA and PEEC, and has responded to five exposure drafts during the year. The following table summarizes these exposure drafts.

Exposure Drafts Addressed During 2016	
Source	Exposure Draft
IESBA	Proposed Revisions Pertaining to Safeguards in the Code - Phase 1
IESBA	Proposed Restructured Code - Phase 1
PEEC	Omnibus Proposal
PEEC	Hosting Services
IESBA	Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

During the exposure draft (ED) process, the Committee discusses the merits of the ED, then drafts a response, which is sent to the Regulatory Response Committee for consideration. Typically, the Ethics Committee will participate in a conference call with the Regulatory Response Committee to further discuss the ED.

The Committee also reviewed the Practice Continuation Agreements: A Practice Survival Kit – the joint resource prepared by the AICPA and NASBA and its guidance as it relates to ethics and practice continuation.

evolve development **CPA** response **public** RESOURCE ACCOUNTING **ethics**
PROTECT regulate CPE
MERIT AUDIT trust practice

EXECUTIVE DIRECTORS COMMITTEE

Support executive directors in their roles with Boards of Accountancy.

The Executive Directors Committee represents the executive directors of the 55 Boards of Accountancy and serves as a means of outreach to the executive directors. The Committee was responsible for coordinating the 34th Annual Conference for Executive Directors and Board Staff, which was held in Tucson, AZ, in March 2016. In continuing efforts to build relationships and in conjunction with the State Society Relations Committee, joint sessions were held with State CPA Society CEOs and presidents. The conference held discussions on topics covering Legal Cases and Other Developments Impacting the Profession, Diversity and Building the Profession, Legislative Strategies, Education and Accreditation, Peer Review and Improvements in Practice Monitoring, Recommendations for Pass with Deficiencies and Fail Peer Review Reports, Update on the CPA Exam and Practice Analysis Results, Leveraging Data for More Effective Enforcement, Leadership Training, Threats to the CPA Pipeline, CPE Standards Exposure Draft Update, and Use of Titles and Credentials.

The Committee met in conjunction with the CBT Administration Committee, via conference call, on May 11, 2016, to review proposed changes to the UAA regarding the Test Administration Model (TAM) and to draft a recommendation to all Boards of Accountancy on handling conditional credit transition for candidates taking the new CPA Exam in 2017. The recommendation was finalized and sent to boards on July 1, 2016. Boards were advised delays in score releases would occur for the three testing windows following the launch of the next version of the CPA Examination, in April 2017. The Executive Directors Committee and the CBT Administration Committee recommended boards consider extending to December 31, 2017, the conditional credit of those candidates impacted by the delays in score reporting for the 2Q 2017 launch window.

The Committee met in Denver, CO, in June 2016, to begin coordination and planning for the 35th Annual Conference for Executive Directors and Board Staff in New Orleans, LA, in March 2017.

Chair:

James Corley (AR)

Members:

Richard C. Carroll (KY)

Thomas DeGroot (MO)

Ofelia Duran (CO)

Russ Freidewald (IL)

Pamela Ivey (WY)

Wade Jewell (VA)

David Sanford (GU)

Staff Liaisons:

Daniel J. Dustin

Patricia Hartman

EVOLVING RESOURCES FOR EXECUTIVE DIRECTORS

INTERNATIONAL QUALIFICATIONS APPRAISAL BOARD

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-U.S. professionals to the Board of Directors.

Chair:

Telford A. Lodden (IA)

NASBA IQAB Members:

Sharon A. Jensen (MN)

Jose Ramon Rodriguez (NC)

Kathleen J. Smith (NE)

William Treacy, Chair Emeritus (TX)

AICPA IQAB Members:

Charles P. Heeter, Jr. (DC)

Raymond N. Johnson (OR)

Sara L. Lord (MN)

Joseph P. Petito (DC)

NASBA Staff Liaisons:

Louise Dratler Haberman

Patricia Hartman

AICPA Staff Liaison:

James Knafo

Having recommended a change to the Uniform Accountancy Act (UAA) to allow for the state boards' unilateral recognition of experienced, credentialed, international accountants, the NASBA/AICPA IQAB members watched to see how the proposal would be greeted by the boards. By the September 1, 2016 conclusion of the exposure period, few negative comments had been received. Once the NASBA and AICPA Boards of Directors approve the change, the revision will be placed in UAA Section 6.

The unilateral pathway will need to be adopted by the state boards before it can be applied, but it will ultimately allow additional international accountants to become U.S. CPAs. Mutual recognition agreements continue to be the primary target of IQAB's efforts.

This year, IQAB concentrated on developing a standard format for recognition agreements that clearly defines which credential holders are covered by the agreement, what requirements they must meet and what each party offers to do for those individuals. To receive audit rights may require more than simply holding the credential in good standing.

Changes in policies in the EU have impacted existing agreements. Similarly, the merging of institutes has impacted such agreements. However, Brexit may offer new opportunities for the creation of mutual recognition agreements.

IQAB met in-person twice this year and held multiple conference calls, both as a whole and as task force groups. Negotiations are in progress with CPA Canada, Instituto Mexicano de Contadores Públicos, the Institute of Chartered Accountants of England and Wales, the Hong Kong Institute of CPAs, the Chartered Accountants Ireland, the South African Institute of Chartered Accountants, CPA Australia and the Institute of Chartered Accountants of Scotland. NASBA leaders have met with representatives of the FRC, Institute of Chartered Accountants of Scotland and the Association of Chartered Accountants in the United States (ACAUS).

Plans for the revised Uniform CPA Examination have been considered by IQAB members and they concluded the REG section will continue to be acceptable for use as the International Qualifications Examination (IQEX). Those covered by an MRA must pass the IQEX.

It is anticipated that IQAB will complete the renewal of several mutual recognition agreements by the end of 2016, and IQAB will also recommend the creation of a unilateral agreement, with the understanding that there will be movement toward that agreement becoming a mutual recognition agreement in the not too distant future.

ADDRESSING THE EVOLVING GLOBAL LANDSCAPE

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.

NASBA's Department of Legislative and Governmental Affairs has the ability to identify and monitor legislation through NASBA's Legislative Tracking System. The Legislative Tracking System enhances NASBA's ability to fulfill its public protection responsibilities. The Legislative Support Committee regards the legislative bill tracking program as an important tool in furthering the effectiveness and advancing the common interests of all Boards of Accountancy. This system allows boards and NASBA to become more readily aware of key pieces of legislation, in their jurisdictions and around the country, which could greatly impact their regulatory capacity.

Through the use of bill tracking protocols that were programmed with search queries written by John Johnson, NASBA is able to monitor legislation affecting the accounting profession within the 50 states, Puerto Rico, the District of Columbia, and the U.S. Congress. During the 2016 legislative sessions, 988 Board of Accountancy-related bills were identified and monitored. Of those, 147 were classified as "direct impact," meaning legislation that may have significant repercussions on the regulation of the accounting profession. Furthermore, an additional 174 bills were classified as "high priority." High priority legislation is defined as containing statutory language, which, if amended during the legislative process, could have an impact on the regulation of the profession.

In addition to staying up-to-date on legislation, it is equally important to establish a strong internal network program that can proactively and positively influence governmental affairs, in general, and if/when important legislation is identified. To accomplish this task, NASBA's Department of Legislative and Governmental Affairs has established a Key Person Contact (KPC) Program, which serves as a nexus for transmitting information to legislators and reporting information about proposed or pending legislation to NASBA. The Committee believes that identifying and cultivating these relationships is essential, and has developed a plan to ensure each member who has a personal and/or professional relationship with elected members of legislative and executive branches of government can be engaged to the benefit of the profession.

These initiatives have already demonstrated great benefits for NASBA and our member jurisdictions. One such example concerns the North Carolina Dental Decision and its impact on State Boards of Accountancy. Legislative bill tracking allowed NASBA to monitor the fallout in highly specific ways, and the KPC Program made it possible to mobilize key members in shaping the impact to the profession's advantage.

Finally, due to NASBA's broader and deeper engagement in legislative affairs, we were able to provide a number of tools following this decision that members readily enlisted, including:

A white paper to educate the profession about the impact this decision could have on State Boards of Accountancy

- A webpage on nasba.org devoted to the North Carolina Dental Case
- A coalition with representatives from other national professional licensing board associations to respond to the North Carolina Dental Board case
- Several webinars to further educate and answer questions about the court's decision
- A collaborative, state-by-state approach to ensure that each Board of Accountancy has state-imposed Immunity and Indemnification

Chair:

Sharon A. Jensen (MN)

Members:

Julian I. Deal (GA)

Joseph S. Drew (DC)

Jeffrey L. Johnson (AK)

Martin C. Levin (PA)

Mark S. Robinson (MA)

Layne R. Simmons (AZ)

Richard C. Sweeney (WA)

Staff Liaison:

John Johnson

NOMINATING COMMITTEE

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

Chair:

Walter C. Davenport (NC)

Members:

Barton W. Baldwin (NC)
Barry M. Berkowitz (PA)
Frederick G. Briggs, Jr. (NH)
Ruben A. Davila (CA)
James P. Gero (OH)
Cheryl M. Guidy (ID)
Jeffrey A. Leiserowitz (KS)
Barbara A. Ley (OK)
Faye D. Miller (ND)
Thomas G. Prothro (TX)
Steven H. Richards (AL)
Donald R. Roland (GA)
Karen Forrest Turner (CO)
Thomas T. Ueno (HI)
Michael Weinshel (CT)

Staff Liaisons:

Ken L. Bishop
Anita Holt

The Nominating Committee met in Dallas, TX, in early May to make their recommendations for vice chair. Committee members conducted one-on-one interviews with the interested candidates who provided the Committee with their interest to serve NASBA.

Committee members convened on June 24, 2016, in Denver, CO, at the Western Regional Meeting and selected three directors-at-large to a three-year term, and eight regional directors were also selected to represent their respective regions to a one-year term.

In accordance with the Bylaws, the Committee has submitted its report to Chair Burkett and the majority vote of member boards represented during the Business Session at the Annual Meeting shall constitute an election.

IDENTIFYING QUALIFIED INDIVIDUALS
TO LEAD NASBA

PAST CHAIR ADVISORY COUNCIL

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

The Past Chair Advisory Council met in Dana Point, CA, in conjunction with NASBA's 2015 Annual Meeting. The Council received updates regarding significant NASBA initiatives, including its recently updated strategic plan, new service offerings and significant Nashville office renovations. In addition, trending issues including legislative and UAA activity, enforcement and diversity efforts, and education-related topics were discussed. The Past Chair Advisory Council also celebrated the 10-year anniversary of the NASBA Center for Public Trust (CPT).

Chair:

Walter C. Davenport (NC)

Members:

Billy M. Atkinson (TX)
Barton W. Baldwin (NC)
Milton Brown (NJ)
K. Michael Conaway (DC)
Samuel K. Cotterell (ID)
Michael T. Daggett (AZ)
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 Iino (CA)

Carlos E. Johnson (OK)

Wesley P. Johnson (NM)

Noel P. Kirch (OK)

Andrew P. Marincovich (CA)

John B. Peace (AR)

Diane M. Rubin (CA)

Ronnie Rudd (TX)

Thomas J. Sadler (WA)

Jerome A. Schine (FL)

Wilbert H. Schwotzer (GA)

Dennis P. Spackman (UT)

Sandra A. Suran (OR)

David A. Vaudt (CT)

Michael D. Weatherwax (CO)

Staff Liaison:

Colleen K. Conrad

REGULATORY RESPONSE COMMITTEE

Develop timely proposed responses on professional practice developments.

The Regulatory Response Committee (RCC) was busy this year, drafting responses and working with other NASBA committees reviewing their draft responses. Chair Michael Fritz held many conference calls with the RRC, and invited the regional directors to join in, to ensure there was input from around the country before responses were sent to NASBA Chair Donny Burkett and President Ken Bishop for their final review and signatures.

Responses submitted on exposure drafts and other requests for comment, as shepherded by the Regulatory Response Committee, included:

- October 23, 2015, AICPA Exposure Draft - Maintaining Relevance of the Uniform CPA Examination
- January 11, 2016, AICPA Exposure Draft - Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews for Improving Transparency and Effectiveness of Peer Review
- April 15, 2016, IESBA Exposure Draft on Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1
- July 14, 2016, AICPA PEEC Exposure Draft on Hosting Services
- August 12, 2016, PCAOB Proposed Auditing Standard – The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; PCAOB Rulemaking Docket Matter No. 034
- August 18, 2016, AICPA Exposure Draft – Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews
- August 25, 2016, AICPA Proposed Statement on Standards for Accounting and Review Services (SSARS)
- September 1, 2016, AICPA Proposed Statement on Auditing Standards – The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern
- September 2016 – AICPA Proposed Statement on Auditing Standards – Auditor Involvement with Exempt Offering Documents

Chair:

W. Michael Fritz (OH)

Members:

Alan R. Augenstein (AZ)

Kevin Collins (CO)

David D. Duree (TX)

Gaylen R. Hansen (CO)

Tracy Harding (ME)

Matthew J. Howell (MI)

Richard Isserman (NY)

Sara J. Mikuta (IL)

Mark P. Peach (MS)

Carleton L. Williams (HI)

Staff Liaisons:

Louise Dratler Haberman

Nigyar Mamedova

EVOLVING RESPONSES TO EMERGING ISSUES

DISCUSSING EVOLVING ISSUES WITH MEMBER BOARDS

RELATIONS WITH MEMBER BOARDS COMMITTEE

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

Chair:

John F. Dailey, Jr. (NJ)

Members:

J. Coalter Baker (TX)

Maria E. Caldwell (FL)

W. Michael Fritz (OH)

Sharon A. Jensen (MN)

Edwin G. Jolicoeur (WA)

Stephanie S. Saunders (VA)

Benjamin C. Steele (NV)

Executive Directors' Liaison

James Corley (AR)

Staff Liaisons:

Daniel J. Dustin

Louise Dratler Haberman

Throughout the year, the regional directors (who are the Committee's members) kept in contact with the jurisdictions in their regions through Focus Questions and attendance at various Board of Accountancy meetings. To simplify the distribution and completion of the Focus Questions and the compilation of the responses, the regional directors asked staff to develop the appropriate electronic templates to be attached to the quarterly communications sent out to the state boards. Two different versions were pilot tested this year.

As in previous years, the regional directors developed and moderated the programs for the 2016 Eastern and Western Regional Meetings, and the associated New Board Member Orientation Sessions. The ratings for these meetings continued to show the highest scores for the regional breakout sessions, which featured each regional director facilitating an open discussion with his or her region's representatives.

In between NASBA meetings, the regional directors have conducted regional conference calls, to update all on what had been discussed at the NASBA Board's meetings and to get the states' input on issues under consideration by the NASBA Board.

The regional directors have been asked to listen in to conference calls of the Regulatory Response Committee as they discussed exposure drafts from various professional bodies. Prior to the release of NASBA response letters, the regional directors have been sent final copies of the responses for their review.

Committee Chair John Dailey has encouraged the regional directors to remind their states to promptly respond to the surveys being sent out by NASBA Committees.

Vice President, State Board Relations, Daniel J. Dustin, has regularly reported to the regional directors when he would be making state board visits, and has improved coordination of his visits with the regional directors and other NASBA staff.

EVALUATING THE PROCESSES OF STANDARD SETTERS ON BEHALF OF BOARDS OF ACCOUNTANCY

STANDARD-SETTING ADVISORY COMMITTEE

Monitor and objectively evaluate processes of standard setters on behalf of Boards of Accountancy, recommending improvements when warranted. Proactively advise boards and NASBA leadership regarding these activities.

In response to a recommendation of the Standard-Setting Advisory Committee, a director of Technical Research was hired in NASBA's New York City Office in March 2016. In this position, Nigyar Mamedova, CPA, serves an important role by supporting Board of Accountancy appointees to various standard-setting bodies. Pre-meeting and, in some instances, post-meeting calls are now organized for appointees to discuss pertinent agenda topics. Ms. Mamedova and other NASBA staff now also attend meetings of many standard-setters to support appointees and to monitor the activities and standard-setting processes of such bodies.

Additional environmental scans of trending standard-setting bodies and changes in practices of existing bodies are planned. Best practices are reviewed and recommendations for improvements to practices are considered. Additional communications to Boards of Accountancy regarding activities of standard-setting-bodies are provided through NASBA's *State Board Report*. The Committee is considering additional communication mechanisms.

Chair:

A. Carlos Barrera (TX)

Members:

Matthew P. Boshier (VA)

Timothy F. Egan (CT)

W. Michael Fritz (OH)

Gaylen R. Hansen (CO)

Michael P. Rollage (PA)

Staff Liaisons:

Colleen K. Conrad

Louise Dratler Haberman

STATE SOCIETY RELATIONS COMMITTEE

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

Chair:

Ralph Albert Thomas (NJ)

Vice Chair:

Stephanie Peters (VA)

Members:

Michael Colgan (PA)

Loretta Doon (CA)

Brad Floyd (TN)

Richard E. Jones (WA)

Mary E. Medley (CO)

James T. O'Hallaron (MO)

Staff Liaison:

John 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 2016:

- **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 34th Annual Conference for Executive Directors and Board Staff. The 2016 conference brought together, for the second year in a row, state board executive directors and 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; diversity and the profession; joint NASBA/AICPA legislative update; Uniform CPA Examination update; peer review improvements in practice, among others. The joint conference attracted 37 Board of Accountancy executive directors and 21 State Society CEOs.
- **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.
- **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.
- **CPT Ethics CPE Resources Program** – The Committee gained a better understanding of how the NASBA Center for the Public Trust - Ethics CPE Resources Program is developing original, innovative and informative ethics-related resources for State CPA Societies to exclusively use as a supplement to their current ethics CPE materials.
- **Use of Titles** – The Committee and NASBA worked to gain a better understanding of how the "use of titles" UAA language, and current laws implemented in many jurisdictions, impact how the use of designations/titles/credentials by non-licensees may contribute to consumer confusion in the marketplace.

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 Johnson, Director of Legislative and Governmental Affairs, when consulting with Boards of Accountancy regarding their legislative strategies.

MODEL LAW & RULES FOR AN EVOLVING PROFESSION

UNIFORM ACCOUNTANCY ACT COMMITTEE

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

Completed Projects:

- The Uniform Accountancy Act (UAA) Committee finalized and the NASBA and AICPA Boards of Directors approved changes to UAA Section 6 and the Model Rules to allow a “CPA-Retired” category for licensees 55 years of age or older. They may claim an exemption from continuing professional education and use this new title as long as they do not provide or offer to provide professional accounting services to the public. Limited volunteer activities are available that allow the licensee to benefit the community using skills obtained during his/her career.
- UAA Sections 3 and 14 were revised to include the definition of “preparation” for financial statements with a clear statement that SSARS 21 must be followed when providing such services.
- A unilateral pathway to allow experienced, credentialed, international accountants to become licensed as U.S. CPAs was exposed for public comment until September 1, 2016. It is expected that this change to Section 6 will be approved by the NASBA and AICPA Boards, this year.
- Modifications to Model Rules Article 5, on the Uniform CPA Examination’s administration, were proposed to reflect revisions to the 2017 Exam. These modifications include lengthening the testing window by 10 days and clearer identification of the start date for the 18-month completion window. Approval is expected in October 2016.

Ongoing Projects:

- Changes to Model Rules Article 6 on continuing professional education are expected to be approved for public comment by the NASBA Board, this year.
- The Compliance Assurance Committee (CAC), working with the AICPA Peer Review Committee, is expected to request changes in Model Rules Article 7. Earlier requests for modifications were abandoned as changes to the AICPA peer review program are being discussed.

Proposed Project:

- NASBA and AICPA staff are drafting language that may make it possible under UAA Section 14(2) for non-CPA management accountants to use management accounting designations under specifically defined criteria.

Chair:

J. Coalter Baker (TX)

Members:

Barton W. Baldwin (NC)

David L. Dennis (FL)

David de Silva (NY)

Andrew L. DuBoff (NJ)

Karen Garrett (AR)

Kenneth R. Odom (AL)

John E. Patterson (OH)

Donovan W. Rulien, II (AK)

Kim Tredinnick (MN)

Staff Liaisons:

Daniel J. Dustin

Louise Dratler Haberman

NASBA CPT Year in Review



OCTOBER 2015
CPT continues to celebrate 10 years of Being a Difference.

NOVEMBER 2015
CPT makes 10th stop on Ethics Town Hall tour.

DECEMBER 2015
NASBA Center for the Public Trust partners with Baruch College to present its 10th Annual Auditing Conference.

APRIL 2016
CPT launches its Ethical Leadership Training and Certification Program for business professionals.

MAY 2016
Kevin Y. Brown, President of Legacy Thinking Labs, receives the Being a Difference Award.

JUNE 2016
CPT hosts annual StudentCPT Leadership Conference, equipping 69 collegians with valuable insights on ethical leadership, accountability, integrity and networking.

NASBA Center for the Public Trust

GROWTH IN 2016

After the NASBA Center for the Public Trust (CPT) celebrated its 10th anniversary in 2015, the organization launched into the next 10 years by enhancing both student and professional program offerings. Working alongside NASBA leadership and members, CPT Board members and other partners, the CPT renewed its focus on developing, encouraging, acknowledging and promoting ethical leadership in business.

The organization grew its number of StudentCPT chapters, increased participation in the 6th Annual StudentCPT Leadership Conference, conducted an 11-campus Ethics Town Hall Tour and launched the Ethical Leadership Training & Certification Program for business professionals. The CPT also continued collaborating with organizations, sharing similar values related to ethical business leadership and promoting individuals who lead with integrity and trust.



Over the past year, new student chapters were established at:

Colorado Mesa University
Creighton University
Georgia Southern University
Saint Louis University
University of Louisiana at Lafayette
Valdosta State University

STUDENTCPT CHAPTERS

The StudentCPT Chapter Program helps students understand 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 32 chapters across the country.

The CPT is currently working with students and professionals to establish new chapters at Fisk University, Mississippi State University, St. John's University, Tennessee State University, Truman State University, University of Colorado – Denver, University of Delaware, University of D.C., University of Mount Olive, University of Texas at Dallas, University of the Virgin Islands, and several other institutions across the country.

ETHICAL LEADERSHIP TRAINING & CERTIFICATION

One of the largest and most impactful endeavors for the CPT is the Ethical Leadership Training & Certification Program. In addition to enrolling more than 2,000 college students in the student certification program, the CPT launched a new certification program for existing business professionals in May 2016. The student and professional training and certification programs allow the CPT to use technology as a means to educate current and future leaders.



The new version for professionals includes three, one-hour training modules that focus on ethical leadership, culture and strategy. It is a great product for leaders of all levels, and it has generated much interest in the accounting profession as well as other business areas. Both of these online programs help the CPT advance its mission of championing the public trust in business, institutions and organizations.

SIXTH ANNUAL STUDENTCPT LEADERSHIP CONFERENCE

The annual StudentCPT Leadership Conference brings together students from across the country who are expected to serve as leaders of existing and future StudentCPT chapters. The conference allows students to discover more about ethical leadership, accountability and integrity, while 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 subject-matter experts, including outside professional presenters, CPT Board members and staff. Students also had the opportunity to network with NASBA Regional Meeting attendees during luncheons and dinners.



This year's conference was held in Denver, CO, and included 69 students, representing 37 colleges and universities.

Through the generosity of our supporters, the CPT raised approximately \$50,000 to support the conference. Led by the Daniels Fund out of Denver, CO, with a \$30,000 title sponsorship gift, the Sponsor a Leader Campaign offset most of the cost for the conference. The CPT staff and Board members are grateful for the donors who support the conference and other CPT activities.

ETHICS IN ACTION STUDENT VIDEO COMPETITION

The 2016 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.

After receiving 35 submissions in 2015, the competition nearly doubled the number of entries with a record high of 66 videos in 2016. These videos received over 11,500 views and over 3,200 votes for the viewer's choice competition. The competition continues to be an effective way to teach students about business ethics in a format that is fun, memorable and effective.

This year's winning teams represented:

Marshall University
Oklahoma State
University of Georgia
University of Missouri – Columbia
University of Tennessee – Knoxville
Utah State University

2015-16 BOARD OF DIRECTORS

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CPT Chair
Retired President & CEO, NASBA & NASBA CPT

LARRY W. BRIDGESMITH, ESQ.

CPT Life Director
CRO, ERM Legal Solutions

MILTON BROWN, PA

CPT Life Director
President & Owner,
Accounting Offices of Milton Brown, LLC

JANET BUCHANAN, PH.D.

President, Buchanan Consulting, LLC

JIMMY E. BURKES, CPA

CPT Secretary
Consultant, Haddox Reid Eubank Betts PLLC

CYNTHIA COOPER

CEO, The CooperGroup, LLC

KEITH DARCY

President, Darcy Partners, Inc

LINDA FERRELL, PH.D.

University Distinguished Chair in Business Ethics,
Jack C. Massey College of Business,
Belmont University

O.C. FERRELL, PH.D.

University Distinguished Chair in Business Ethics,
Jack C. Massey College of Business,
Belmont University

BILL FOWLER, CPA

Senior VP, Scholarship Program, Daniels Fund

LAWRENCE W. HAMILTON, MPA, ED.S.

Consultant

MELVIN J. MALONE, ESQ.

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CEO, NASBA CPT

ALFONZO ALEXANDER

President, NASBA CPT

SANDRA DAVIDSON

CFO, NASBA CPT

FACILITIES YEAR IN REVIEW

October 2015
NASBA begins renovation of Nashville office to create open, collaborative environment.

November 2015
NASBA cuts opening between 6th and 7th floors for stairway construction.

January 2016
NASBA occupies the 6th floor and renovation on the 7th floor begins.

April 2016
Renovations on the 7th floor are complete.

June 2016
8th floor renovation completed. Conference rooms named in honor of Past President, David A. Costello, and Past Executive Vice President, Lorraine P. Sachs.

August 2016
NASBA hosts Open House for staff and families to tour newly renovated Nashville headquarters.

Mary Lane, Facilities Manager, and Michael R. Bryant, Senior Vice President & CFO, were instrumental in designing and executing the renovation of the Nashville office.



NASBA *Year in Review*

OCT 2015

The 108th Annual Meeting spotlights "Embracing the Future."



Strategic Planning Task Force presents their report to the NASBA Board of Directors.

NASBA and AICPA Boards of Directors approve exposing for comment UAA proposal for CPA-retired status.

NOV 2015

NASBA leaders meet with China Finance Ministry delegation.



NASBA Center for the Public Trust continues its Ethics Town Hall Meetings on three college campuses. In total, Town Halls were held on 11 campuses across the U.S.

DEC 2015

NASBA webinar on the implications of the North Carolina Dental Board case presented on December 10 and archived on nasba.org.

FRC CEO Stephen Haddrill meets with President Ken Bishop in NASBA NYC office.



Accountancy Licensing Library (ALL) reaches a milestone of acquiring 200 college and/or university subscribers.

APR 2016

Blueprints for the revised April 2017 Uniform CPA Examination released to the public.

Board approves admittance of American Samoa Territorial Board of Public Accountancy as 56th member of NASBA, pending completion of its application.



Education Committee continues to accept applications for NASBA's Accounting Education Research Grants until mid-month.

NASBA announces 664,532 as the official statistic of actively licensed CPAs in the U.S. as of April 22.

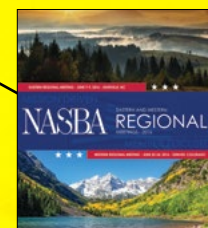
MAY 2016



NASBA joins the Professional Licensing Coalition with other national professional licensing board associations to help shape legislation that will protect those who serve on state boards from potential litigation.

JUN 2016

NASBA 2016 Eastern Regional Meeting held in Asheville, NC, and Western Regional Meeting held in Denver, CO.



Exposure draft released to amend the UAA to permit unilateral recognition of credentialed experienced international professionals and amend Model Rules to facilitate the revised 2017 Uniform CPA Examination.

PROFESSION YEAR IN REVIEW

JAN 2016

Accreditation Forum jointly sponsored by NASBA and AICPA held on January 29.

NASBA Past Chair Diane Rubin begins her term as a trustee of the Financial Accounting Foundation (FAF).



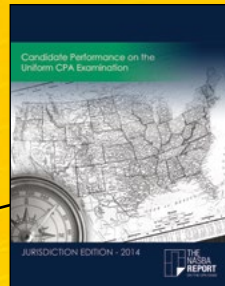
NASBA Experience Verification Service launched to the public.

California Board of Accountancy receives NASBA's initial determinations on substantial equivalency of state boards' enforcement practices.

FEB 2016

NASBA regional directors host Regional conference calls.

CPA candidate statistics for 2015 published.



ALD/CPAverify Committee, Enforcement Resources Committee and Compliance Assurance Committee hold their first joint conference call on February 10.

CPE Committee re-issues exposure draft on proposed revisions to the CPE Standards.

MAR 2016

The 34th Annual Conference of Executive Directors and Board Staff and 21st Annual Conference of Board of Accountancy Legal Counsel are held in Tucson, AZ.



NASBA staff directors meet and recommend development of an operational strategic plan to more clearly coordinate activities with NASBA's Strategic Plan.

JUL 2016

Revised Statement on Standards for CPE Programs approved by Board of Directors.

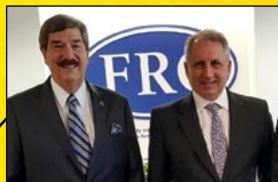
NASBA Leadership Summit held with AICPA, CPA Canada and Instituto Mexicano de Contadores Publicos.

NASBA Board approves change to UAA to create CPA-retired status.



AUG 2016

NASBA leaders meet with leaders of the FRC and the Institute of Chartered Accountants of Scotland in the UK.



American Accounting Association celebrates its centennial. NASBA leaders and staff participate in the AAA's annual meeting events.

SEPT 2016

NASBA National Registry Summit held September 12-14, in Tampa, FL.



Conclusion of comment period for UAA and Model Rules changes on unilateral pathway and Examination administration.

NASBAregistry.org launched to clearly direct users to information for state boards, CPAs, current Registry sponsors and those CPE providers interested in becoming Registry sponsors.

February 2016

U.S. Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights holds hearing on licensing February 2.

March 2016

Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights holds its second hearing on "Oversight of Antitrust Laws."

May 2016

AICPA begins an expedited drop process that reduces the period until a firm is removed from its Peer Review program.

May 2016

Public Company Accounting Oversight Board proposes "critical audit matters" be included in the auditor's report.

July 2016

AICPA sends white paper "Proposed Evolution of Peer Review Administration: A Supplemental Discussion Paper Seeking Input from State Boards of Accountancy" to state boards.

August 2016

AICPA Board approves change to UAA to create CPA-retired status.

Products and Services

Providing outreach and assistance across every stage of the CPA life cycle is yet another way NASBA accomplishes its mission. From CPA Examination administration, to licensure, to education, NASBA offers a menu of high-quality products and services, all designed with Board of Accountancy members, consumers and the CPA profession in mind.

Member services include, but are not limited to, association meetings, CPA Examination administration and evaluation of international coursework and credentials. NASBA's consumer products span across the spectrum from licensing application assistance to continuing professional education (CPE) and compliance management services.

Over the years, several additional products and services have been developed to meet the growing needs of the accounting profession. Clients include individual CPAs, CPE providers, State CPA Societies and accounting firms of all sizes. NASBA will continue to provide innovative products and services to further business continuity and effectiveness. The following pages detail more about the various products, services and complementary offerings available through NASBA.



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.



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.



NASBA's concierge service, CredentialNet, assists with completing the application process for licenses/permits. NASBA manages this process from start to finish, allowing licensees and firms the opportunity to focus on day-to-day business.

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

Serving as an advocate for CPA candidates, 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 candidates, NASBA has provided licensing services to Boards of Accountancy for more than 25 years. NASBA Licensing Services include application processing, eligibility determination, score reporting and education evaluation. NASBA also provides excellent and reliable customer service to candidates throughout the 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.

NASBAstore

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 professional, including state-of-the-art printing, timely processing and distribution of CPA license cards. It is the home of NASBA's Wall Certificate Service, offering creative, professional design options to enhance the appearance of licensing certificates. NASBAstore also offers 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 Canadian Institute of Chartered Accountants (CICA), Instituto Mexicano de Contadores Publicos (IMCP), Institute of Chartered Accountants in Australia (ICAA), New Zealand Institute of Chartered Accountants (NZIA), Chartered Accountants of Ireland (CAI) and the Hong Kong Institute of Certified Public Accountants (HKICPA).

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.

NASBA
UNIVERSITY

From left to right: NASBA U participants Boyd Busby (AL) and Wendy Garvin (TN) with NASBA's Patricia Hartman. Not pictured: Jimmy Corley (AR).



LEGISLATIVE TRACKING

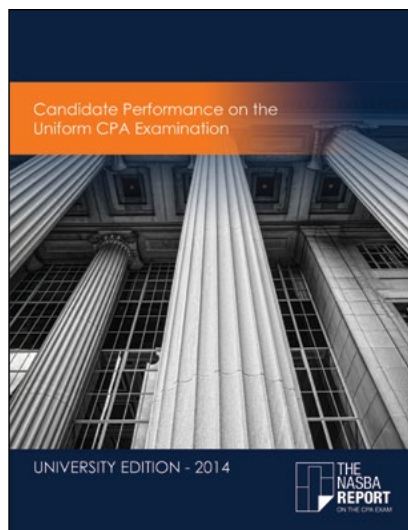
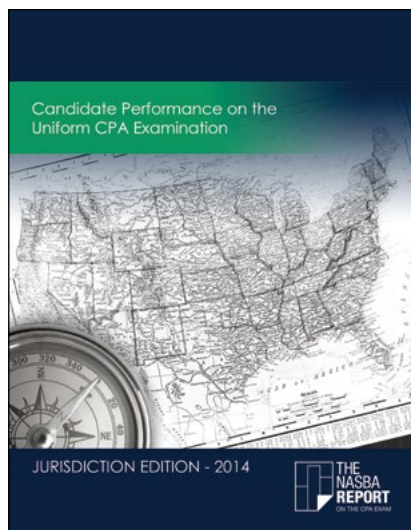
NASBA's Legislative Tracking System was created and calibrated specifically for Boards of Accountancy to monitor legislation and amendments (in real time) that affect the regulation of the profession. By allowing boards to become more readily aware and to share knowledge concerning key pieces of legislation 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.



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.

The NASBA Report on the Uniform CPA Examination is your go-to resource for annual statistics and trends of candidates taking the CPA Examination. The reports were completely redesigned in 2016 to include content area breakdowns and detailed cohort tracking. Annual University Briefs were introduced to assist faculty with the year-over-year tracking of student performance and to aid in satisfying accreditation standards. This information, available only from NASBA, offers you the best overview of CPA Examination trends from around the world, regionally, and at the university level.



Ranking of Institutions by Pass Rate: First-Time, All Programs

Includes 821 institutions with 10 or more reported candidates

Rank	State	Institution (FICE)	Candidates	Sections	Percent	Average
			Total	Total	Pass	Score
1	PA	UNIV PA (3378)	25	53	90.6%	84.2
2	GA	UNIV GA (1598)	279	700	88.4%	83.6
3	MO	WASHINGTON UNIV ST LOUIS (2520)	61	145	86.9%	83.0
4	FL	UNIV FL (1535)	116	262	85.5%	83.5
5	IL	NORTHWESTERN UNIV (1739)	15	34	85.3%	81.7
6	UT	BRIGHAM YOUNG UNIV (3670)	265	651	84.8%	83.3
7	WI	UNIV WI MADISON (3895)	202	510	84.5%	83.3
8	CA	MASTERS COLL & SEM (1220)	10	19	84.2%	79.2
9	IN	UNIV NOTRE DAME (1840)	207	592	84.1%	82.9
10	TN	VANDERBILT UNIV (3535)	36	113	83.2%	82.7

**The information in the accompanying charts is printed with permission from the NASBA 2015 Candidate Performance on the Uniform CPA Examination.*



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.



NASBA's CPA Examination Services (CPAES) and International Evaluation Services (NIES) have partnered to offer guidance to accounting students with the Advisory Evaluation. This comprehensive report explains how a candidate's current education is viewed by the U.S. Boards of Accountancy, and list the deficiencies that must be satisfied before they will be eligible to sit for the Uniform CPA Examination in their chosen jurisdiction.



Aequo International was founded in 2014 to provide universities and other professional boards with the same high standard of international evaluations that NASBA is able to offer the Boards of Accountancy. As a wholly owned subsidiary of NASBA, Aequo International is dedicated to performing accurate domestic and international education evaluations, identifying fraudulent documents and protecting the public.





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 is free to Boards of Accountancy.



The Accountancy Licensee Database (ALD) is a central repository of current licensee and firm information. It was created to assist Boards of Accountancy with their regulatory mission. With 51 jurisdictions currently participating and the remaining four boards in the implementation phase, NASBA's goal for the ALD - to include current and accurate licensing and disciplinary information for individual CPAs and firms from each of the 55 jurisdictions - is becoming a reality. The ALD is hosted by NASBA and access to the system is free to Boards of Accountancy.



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 by a local provider of primary source verification. 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.



CPAmobility.org

With statutes approved or pending in 54 of the 55 U.S. jurisdictions, mobility has become a reality for CPAs and accounting firms from coast to coast. Mobility is a practice privilege that generally permits a licensed CPA in good standing, from a substantially equivalent state, to practice outside of his/her principal place of business without obtaining another license. 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 of *CPAmobility.org* provides a wealth of information at your fingertips.



Free and available to the public, *CPAverify.org* is a CPA license lookup tool populated by official state regulatory data sent from Boards of Accountancy to a central database. With 51 jurisdictions participating and the remaining four boards in the active implementation phase, CPAverify is an important step in offering a single-source, national database of licensed CPAs. 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 whether a CPA is officially licensed in a state without having to search each Board of Accountancy's website individually.



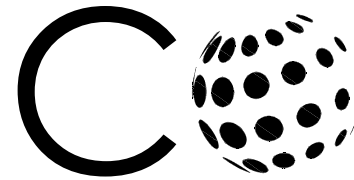
The National Registry of CPE Sponsors was created to help recognize CPE program sponsors who make a commitment to meeting the highest CPE program standards. Only learning providers who are committed to offering high-quality continuing education programs, that improve a CPA's professional competence, are listed on the Registry, and we are proud to have over 2,100 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.

NASBAREGISTRY.ORG (FORMERLY LEARNING MARKET)

Looking for CPE to meet your requirements? Find CPE courses anywhere in the country! Visit *NASBAregistry.org* to search through more than 8,900 CPE courses to find just what you need. You can even narrow your search by date, location, subject area, number of credit hours, CPE provider, delivery method, and more! With all of the different continuing education options out there, *NASBAregistry.org* makes finding the exact CPE course faster and easier. *NASBAregistry.org* is also 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.

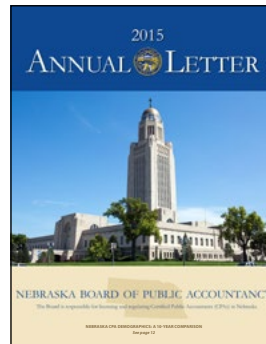
CPE AUDIT SERVICE

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 complimentary and available for use by boards participating in the Accountancy Licensee Database (ALD) with licensee data records that are properly linked across state lines.



COMMUNICATIONS & OUTREACH

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 and annual reports.



ETHICS CPE RESOURCE PROJECT

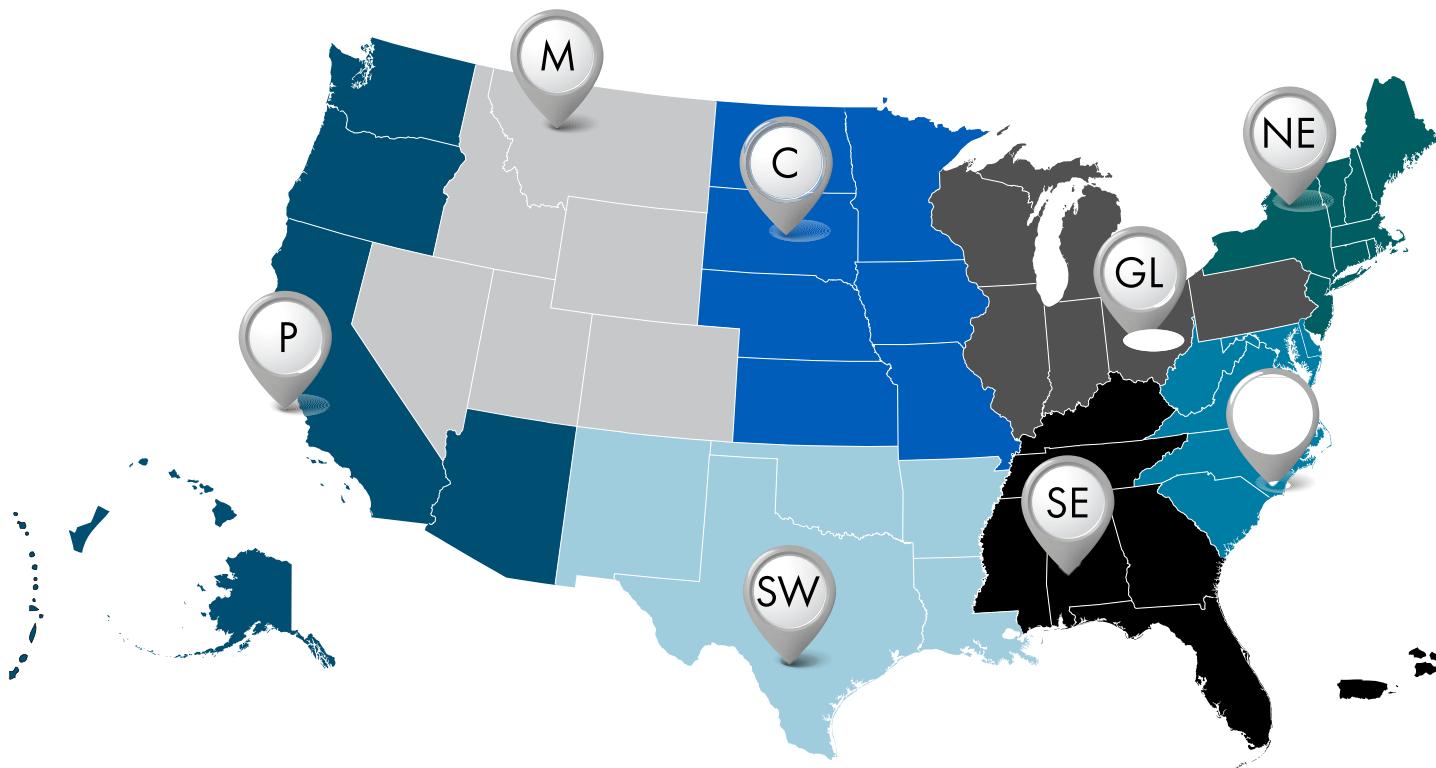
The Ethics CPE Resource Project is designed to provide continuing education providers with original, innovative and informative ethics-related resources. Since State CPA Societies serve as the primary source of Ethics CPE courses for CPAs across the country, State CPA Societies are the initial recipients of the resources available through this program.



ETHICAL LEADERSHIP CERTIFICATION

The Ethical Leadership Certification Program prepares students and business professionals to lead with integrity as they face complex decisions in their careers. This program prepares ethical leaders with tools to understand how to make the best possible decisions, even if they involve choosing between competing values like loyalty, honesty and confidentiality. This certification program uses interactive presentations, videos and thought provoking questions to break down the causes, effects and solutions of real-world ethical dilemmas. Participants must answer 80% of the certification's exam questions correctly, in order to receive their ethical leadership certification. The CPT offers two versions of this certification program, which are geared toward college students and business professionals, respectively.

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY



PACIFIC

Alaska
Arizona
California
CNMI
Guam
Hawaii
Oregon
Washington

P

MOUNTAIN

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Montana
Nevada
Utah
Wyoming

M

SOUTHWEST

Arkansas
Louisiana
New Mexico
Oklahoma
Texas

SW

CENTRAL

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Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

C

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Indiana
Michigan
Ohio
Pennsylvania
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GL

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Alabama
Florida
Georgia
Kentucky
Mississippi
Puerto Rico
Tennessee
Virgin Islands

SE

MIDDLE ATLANTIC

Delaware
District of Columbia
Maryland
North Carolina
South Carolina
Virginia
West Virginia

MA

NORTHEAST

Connecticut
Maine
Massachusetts
New Hampshire
New Jersey
New York
Rhode Island
Vermont

NE

FINANCIAL STATEMENTS

National Association of State Boards
of Accountancy, Inc.

Independent Auditors' Report and Consolidated Financial Statements

July 31, 2016 and 2015



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 22, 2016

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, 2016 and 2015, 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.

Ken L. Bishop
President & Chief Executive Officer

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 22, 2016

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.

A handwritten signature in black ink, reading "Ken L. Bishop".

Ken L. Bishop
President & Chief Executive Officer

A handwritten signature in black ink, reading "Colleen K. Conrad".

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

A handwritten signature in black ink, reading "Michael R. Bryant".

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

A handwritten signature in black ink, reading "Troy A. Walker".

Troy A. Walker, CPA
Director, Finance & Controller

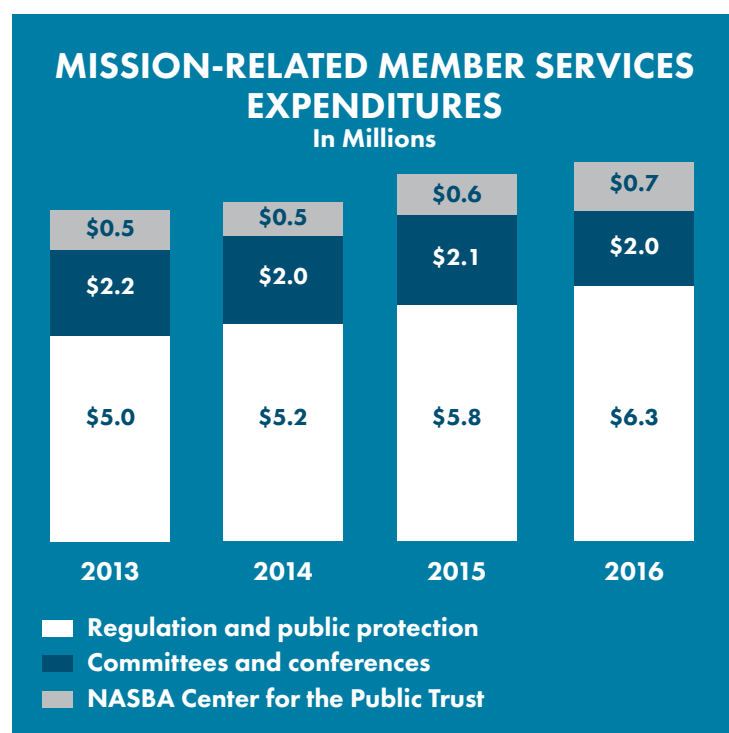
NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS—FISCAL 2016

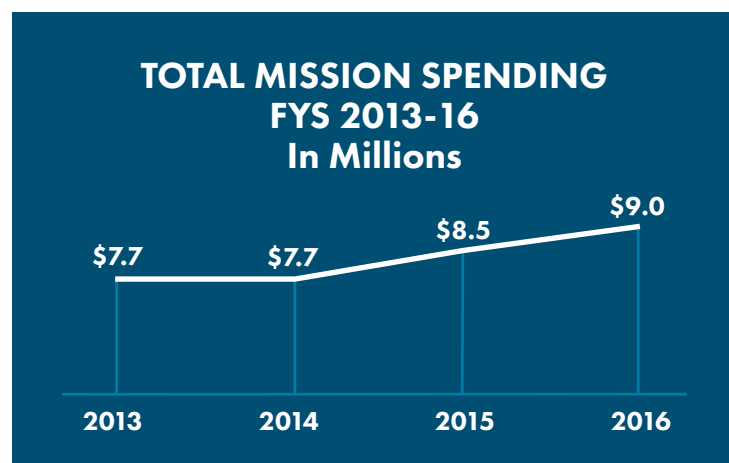
MISSION FOCUS

During fiscal 2016, the National Association of State Boards of Accountancy, Inc. ("NASBA") continued to live up to its mission commitment to enhance the effectiveness and advance the common interests of the Boards of Accountancy. Through investments in new and existing services, in infrastructure, and in software development, NASBA maintains its support of its members in their regulatory and licensing responsibilities designed to protect the public.

NASBA sustained a four-year growth trend in its fiscal year Mission-related Member Services expenditures related to regulation and public protection.

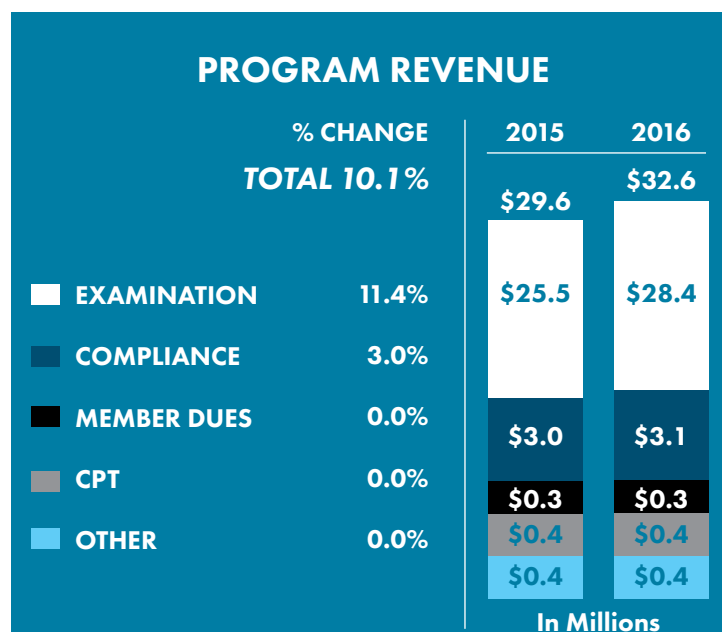


Overall, total fiscal year spending on mission-related activities continued to increase.



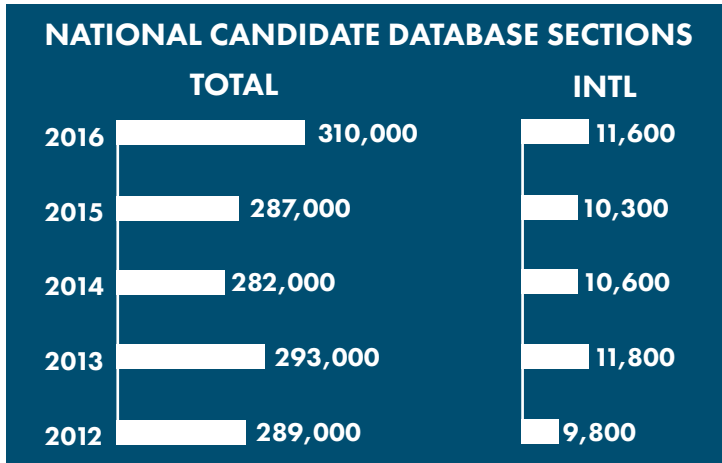
PROGRAM REVENUE

The consolidated financial statements include the accounts of the NASBA Center for the Public Trust ("CPT") and Aequo International LLC, which combined represent approximately 1% of Program Revenue. Overall, NASBA's consolidated revenues grew 10.3%.



Examination revenue in fiscal 2016 had a significant uptick as a result of candidates applying to test prior to examination changes that will become effective in April 2017. A similar trend was experienced prior to examination changes implemented in January of 2011. That increase was followed by a corresponding drop immediately after the changes were implemented, before the cycle returned to a normalized annual volume.

In fiscal 2016, 310,000 examination sections were processed through the National Candidate Database, the central repository and global tracking system for all CPA Examination candidates.



NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS—FISCAL 2016

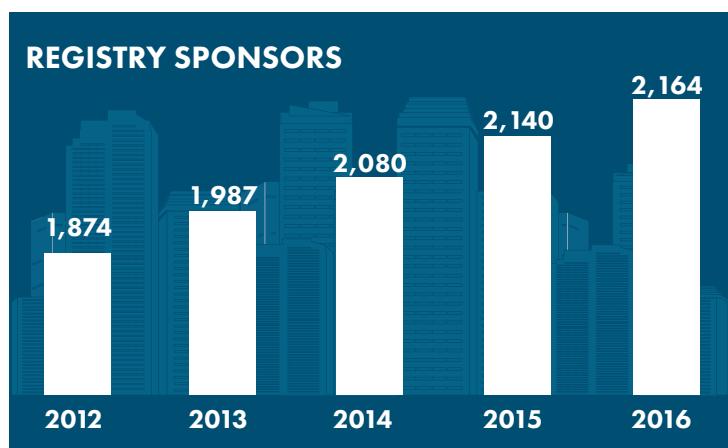
PROGRAM REVENUE (continued)

Volume growth continued in the international evaluation services area and this also contributed to the growth in revenue in the Examination, licensing and related services area.



As one of the evaluation services, an advisory evaluation is provided to prospective examination and licensure candidates who have international transcripts. This service is designed to assist the candidates by evaluating their transcript and aligning with the requirements of a chosen jurisdiction. A new service for fiscal 2016 is the NASBA Experience Verification Service. This service was created in response to an increasing need by the Boards of Accountancy for a more coherent and standardized experience validation and verification process for international and domestic CPA licensure applicants.

Examination, licensing and other services revenue also includes Compliance services, comprised primarily of the National Registry of CPE Sponsors and CPE tracking services. The National Registry of CPE Sponsors continues to increase the number of qualified participants.

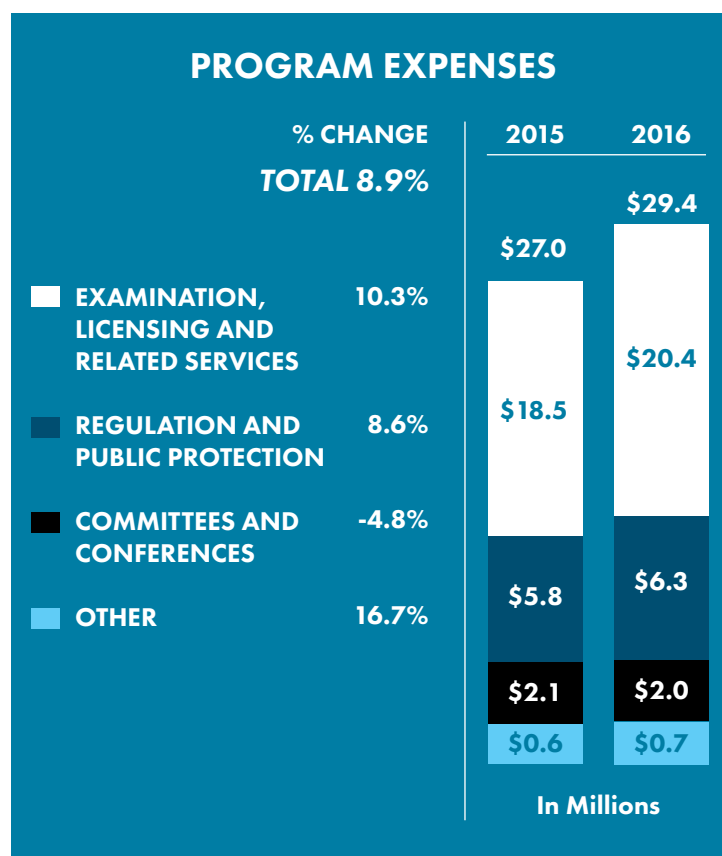


In addition, the National Registry Summit continues to attract attendees with its focus on changes to the CPE standards, innovation in delivery methods and greater understanding of techniques that increase learning effectiveness.

CPE Audit Services is a CPE tracking software development project anticipated to be complete in the second half of fiscal 2017. This mission-focused investment will facilitate Boards of Accountancy in the audit of CPE compliance by licensees.

PROGRAM EXPENSES

Total consolidated program expenses in fiscal 2016 were \$29.4 million compared to \$27.0 million in fiscal 2015.



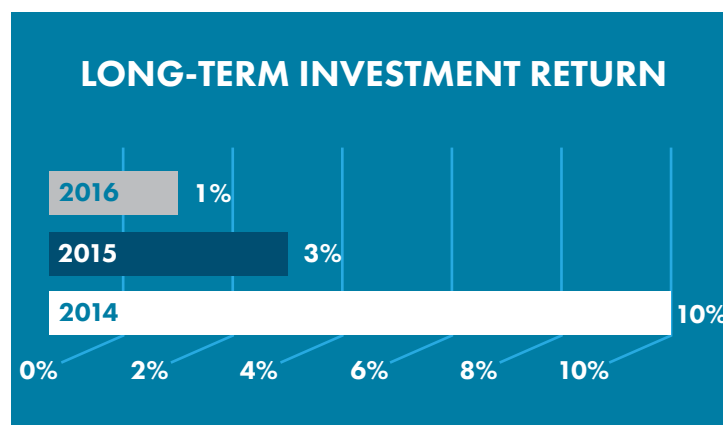
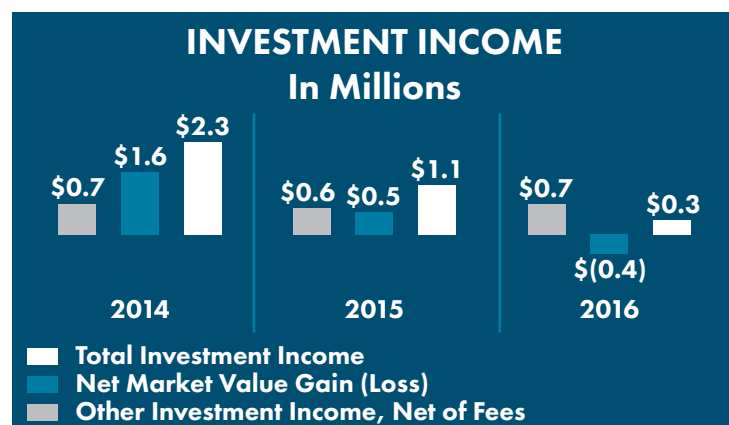
The increase in Examination, licensing and related services primarily relates to additional expenses associated with the markedly increased revenue related to CPA Examination volume and international evaluation services. In addition, costs related to information technology projects contributed to the increase in total expenses.

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS—FISCAL 2016

INVESTMENT INCOME

Investments are managed under a board-approved investment policy in which long-term investments are directed at the discretion of investment advisors who are under the oversight of the NASBA Investment Committee. At the beginning of fiscal 2015, approximately one-half of the long-term fund was sold and reinvested in lower-risk investment securities such as federally-insured certificates of deposit, U.S. Treasury and Federal Agency securities, and corporate bonds with a rating of investment grade or better. Over the three fiscal years, this shift to lower risk securities, along with comparatively lower relative market performance, accounts for the lower returns in 2015 and 2016 compared to 2014.



INVESTMENTS FOR THE FUTURE

Nearly 20 years have passed since the relocation of NASBA's headquarters from New York to Nashville in 1997. In conjunction with the lease expiration of the Nashville offices in 2017, NASBA began in 2012 to explore office space opportunities. The early start and the resulting negotiation led to a favorable lease agreement to remain in the current facilities until 2028. In addition to the favorable lease rate (i.e., the average cost per square foot over the next 10 years approximates the cost of the final year of the existing lease), tenant improvements of \$1.3 million were provided under the lease. NASBA was also able to obtain three contiguous floors rather than the existing separation of one of the floors under the previous lease.

Capital expenditures for the three-floor rebuild were \$4.3 million.



NASBA has several software projects in development. Two major projects involve a rewrite of the National Candidate Database software and development of the CPE Audit Services software which, as previously discussed, will assist Boards of Accountancy in streamlining the process of evaluating whether a licensee's CPE meets the state's requirements. Capitalized software costs incurred in fiscal 2016 of \$2.2 million are almost entirely related to these two in-development projects.

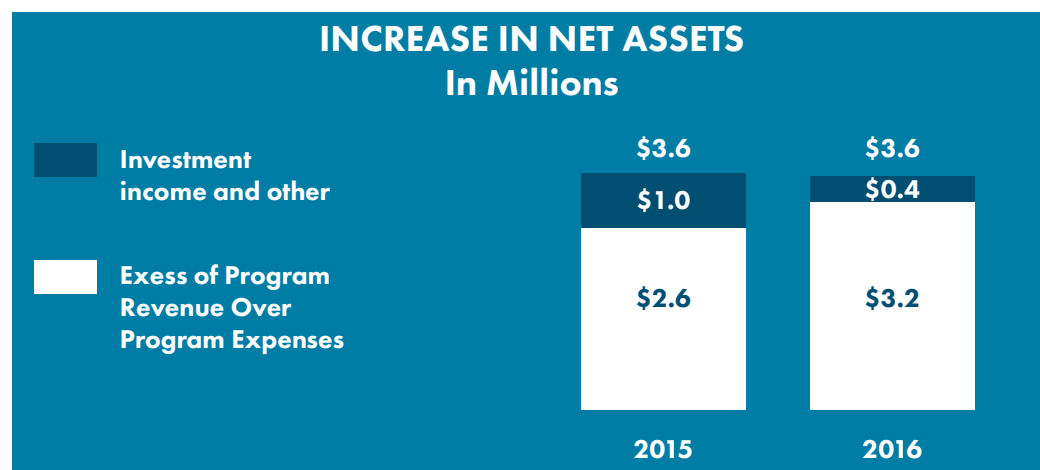
NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS—FISCAL 2016

CASH FLOW AND FINANCIAL POSITION

For fiscal 2016, cash and cash equivalents decreased by \$1.5 million compared to a decrease of \$0.3 million in fiscal 2015. The incremental decrease in fiscal 2016 results primarily from capital expenditures related to the rebuild of the Nashville offices and software development projects, net of a reduction in long-term investment security purchases. Of the total amount used by investing activities, \$2.9 million and \$4.8 million in fiscal 2016 and 2015, respectively, related to the net amount invested in the long-term fund including reinvested dividends. In addition to the long-term fund investment activities, \$0.5 million of principal (and interest of less than \$0.1 million) related to the note receivable was collected in fiscal 2016 and 2015. The total principal balance of the note receivable at July 31, 2016 and 2015 was \$0.5 million and \$1.1 million, respectively. Cash resulting from operating activities increased in both fiscal 2016 and 2015.

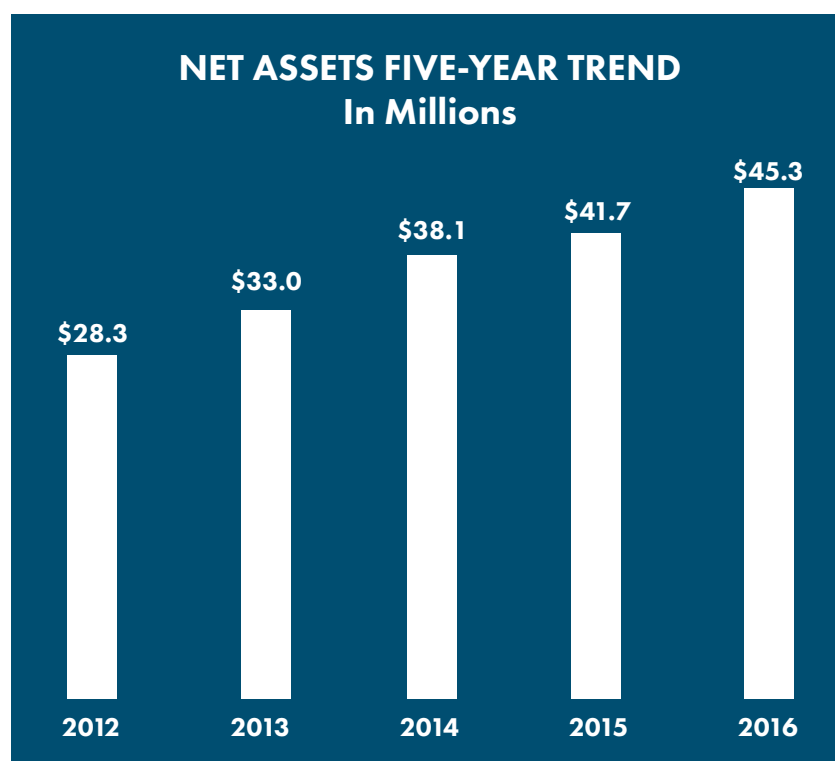
NET ASSETS



The total fiscal year increase in net assets is \$3.6 million for both 2016 and 2015 and is primarily attributable to the excess of program revenue over program expenses. The remaining increase is chiefly investment income, but also includes relatively minor changes in CPT's restricted assets, and the loss from investment in affiliate.

NET ASSETS FIVE-YEAR TREND

Fiscal 2016 extended the positive trend in fiscal year net asset growth while at the same time increasing the amount of mission activity spending. Over the past five years, NASBA's progress has been driven by a refocusing on its commitment to the Boards of Accountancy. NASBA's financial results, increased mission activities, and investments in the future confirm that progress. Changes in the design and build of NASBA's headquarters has created greater engagement, transparency and collaboration. As a result, there is a positive evolution of the culture to a more connected, innovative, and dynamic workplace—an Association better positioned to support its members. Member focus brings improvements to existing services, such as the rebuilding of the National Candidate Database, as well as to creation of new offerings like the CPE Audit Services software development. NASBA moves forward from fiscal 2016 into the future with the financial foundation and mission focus necessary to adapt and evolve to serve its members and their objective of protecting the public interest.





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 22, 2016

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, 2016, 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 and (2) 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 implemented a compliance tool to self-assess the execution of its responsibilities as specified in the Charter;
- The Committee received a presentation from the Chief Information Security Officer summarizing the security program in place for the National Association of State Boards of Accountancy, Inc. and such presentation was communicated to the Board of Directors;
- 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, 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, 2017.

Based on the above, the Committee believes that the annual independent audit was 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, 2016.

Respectfully submitted,

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

A handwritten signature in black ink, appearing to read "Jimmy E. Burkes", is written over a horizontal line.

By: Jimmy E. Burkes, CPA, Chair

Other Members of the Committee

Jeanne M. Dee, CPA
James R. Ladd, CPA
James R. Mintert, CPA
M. Chad Singletary, CPA
Thomas G. Prothro, CPA



INDEPENDENT AUDITORS' REPORT

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

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 for the years ended July 31, 2016 and 2015, and the related consolidated statements of financial position as of July 31, 2016 and 2015, and 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 of 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 risk of material misstatements 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 consolidated changes in the net assets of the National Association of State Boards of Accountancy, Inc. and subsidiaries for the years ended July 31, 2016 and 2015, financial position as of July 31, 2016 and 2015, 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 22, 2016

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

	2016	2015
Program Revenue		
Examination, licensing and related services	\$ 31,508	\$ 28,494
Member services, dues and other revenue	1,077	1,120
Total program revenue	32,585	29,614
Program Expenses		
Examination, licensing and related services	20,426	18,515
Member services:		
Regulation and public protection	6,337	5,824
Committees and conferences	1,958	2,110
Other	646	575
Total program expenses	29,367	27,024
Excess of Program Revenue Over Program Expenses	3,218	2,590
Net Assets Released from Restriction	88	18
Investment Income	337	1,079
Loss from Investment in Affiliate	(12)	(135)
Increase in Unrestricted Net Assets	3,631	3,552
Change in Temporarily Restricted Net Assets		
Temporarily restricted contributions and investment income	34	84
Net assets released from restriction	(88)	(17)
Increase (Decrease) in Temporarily Restricted Net Assets	(54)	67
Decrease in Permanently Restricted Net Assets		
Net assets released from restriction	-	(1)
Decrease in Permanently Restricted Net Assets	-	(1)
Increase in Net Assets	3,577	3,618
Net Assets, Beginning of Year	41,722	38,104
Net Assets, End of Year	\$ 45,299	\$ 41,722

See Accompanying Notes to Consolidated Financial Statements

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

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,006	\$ 11,468
Receivables	1,832	1,835
Note receivable	528	529
Prepaid expenses	789	676
Total current assets	13,155	14,508
Investments and Other Assets		
Investment securities, at fair value	32,222	29,731
Note receivable	-	528
Investment in affiliate	784	296
Other assets	248	244
Total investments and other assets	33,254	30,799
Property and Equipment	7,911	6,052
Less accumulated depreciation and amortization	2,869	4,802
Net property and equipment	5,042	1,250
Software Development Costs	7,156	4,933
Less accumulated amortization	4,777	4,566
Net software development costs	2,379	367
Total assets	\$ 53,830	\$ 46,924
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 6,036	\$ 4,049
Deferred revenues	221	243
Capital lease, current	10	10
Other current liabilities	125	73
Total current liabilities	6,392	4,375
Long-term Liabilities		
Capital lease, non-current	22	32
Other long-term liabilities	2,117	795
Total long-term liabilities	2,139	827
Total liabilities	8,531	5,202
Net Assets		
Unrestricted	45,159	41,528
Temporarily restricted	45	99
Permanently restricted	95	95
Total net assets	45,299	41,722
Total liabilities and net assets	\$ 53,830	\$ 46,924

See Accompanying Notes to Consolidated Financial Statements

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

	2016	2015
Operating Activities		
Cash received for services	\$ 34,211	\$ 30,819
Cash received for membership dues	295	301
Cash received from donors to NASBA Center for the Public Trust	284	412
Cash received for tenant improvements	1,293	-
Interest and dividends received	798	629
Cash paid to employees, vendors and others	(30,035)	(27,966)
Cash received from examination candidates for examination partners	53,573	48,652
Cash paid to escrow accounts for examination partners	(52,924)	(48,727)
Interest paid	(2)	(2)
Net cash provided by operating activities	<u>7,493</u>	<u>4,118</u>
Investing Activities		
Property and equipment additions	(4,354)	(192)
Proceeds from property and equipment disposals	6	-
Capitalized software development costs	(1,758)	(15)
Principal payments received on note receivable	529	529
Purchases of investment securities	(10,432)	(23,535)
Proceeds from sale of investment securities	7,567	18,781
Capital contribution to affiliate	(500)	-
Cash restricted for endowment	(1)	(5)
Endowment fund reinvested dividends	(3)	(3)
Net cash used by investing activities	<u>(8,946)</u>	<u>(4,440)</u>
Financing Activities		
Principal payments on capital leases	(10)	(9)
Cash contributions restricted for endowment	1	5
Net cash used by financing activities	<u>(9)</u>	<u>(4)</u>
Net Decrease in Cash and Cash Equivalents	(1,462)	(326)
Cash and Cash Equivalents, Beginning of Year	11,468	11,794
Cash and Cash Equivalents, End of Year	<u>\$ 10,006</u>	<u>\$ 11,468</u>

See Accompanying Notes to Consolidated Financial Statements

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

	2016	2015
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 3,577	\$ 3,618
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	703	636
Amortization of software development costs	211	202
(Gains) losses on investment securities	374	(486)
Loss from investment in affiliate	12	135
Recognition of deferred rent credit	(108)	(93)
Loss on disposals of property and equipment	8	4
(Gains) losses on endowment fund investment securities	4	(1)
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables	3	(190)
Prepaid expenses and other assets	(118)	(262)
Increase (decrease) in:		
Accounts payable, accrued and other liabilities	2,849	463
Deferred revenues	(22)	92
Net cash provided by operating activities	<u>\$ 7,493</u>	<u>\$ 4,118</u>
Non-cash Investing and Financing Activities		
Capital lease obligation incurred	<u>\$ -</u>	<u>\$ 51</u>
Accrued costs for property and equipment additions	<u>\$ 155</u>	<u>\$ -</u>
Accrued capitalized software development costs	<u>\$ 465</u>	<u>\$ -</u>

See Accompanying Notes to Consolidated Financial Statements

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, Inc. ("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, established on December 19, 2014. Aequo provides international education evaluation services for various non-accounting related occupations and institutions.

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, 2016, the portion of the balance exceeding the FDIC insurance limits was \$400,000.

Receivables, note receivable and credit policies

Receivables are primarily 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 3.

Interest income related to the note receivable is accrued and included in investment income. The note receivable is discussed more fully in Note 6.

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, the note payor, historical loss experience and existing economic conditions. Management has determined that no allowance is required at July 31, 2016 or 2015.

Prepaid expenses

Prepaid expenses consist primarily of prepaid insurance premiums, equipment maintenance contracts, subscription services, and travel and meeting costs.

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. NASBA's investments are carried at fair value. These investments are discussed more fully in Note 4.

CPT's restricted endowment funds are invested in accordance with an investment policy approved by the CPT Board of Directors and are generally invested in similar types of investment securities as NASBA.

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 is accounted for under the equity method. The investment is carried at the initial fair value recorded, increased for additional capital contributions, and adjusted for the proportionate share of the investee's income, losses and distributions. 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. This investment is discussed more fully in Note 7.

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 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.

Software development costs

Costs associated with the development of software for internal use are capitalized and amortized over the software's useful life or, if shorter, the period for which contractual services that utilize the software are rendered. 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.

Realization of long-lived assets

Long-lived assets are reviewed for impairment and, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, appropriate expense adjustments are made.

Net assets

Unrestricted net assets are available for use in general operations. Temporarily restricted net assets have donor-imposed restrictions which permit the use of the donated assets in accordance with the donor restriction. Temporarily restricted contributions and investment income used for the purpose specified by the donor in the same year as received are classified as increases in unrestricted net assets. Permanently restricted net assets have donor-imposed restrictions in which the principal will remain permanently invested. All restricted net assets 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.

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Significant Accounting Policies (Continued)

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.

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.

New accounting pronouncement

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, which updated the guidance in Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement*. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. For non-public business entities, the amendments in the ASU are effective retrospectively for fiscal years beginning after December 15, 2016 with early adoption permitted. NASBA elected to early adopt the amendments in ASU 2015-07 effective in fiscal 2016 and has applied the provisions retrospectively. The investment disclosures required by this ASU 2015-07 are presented in the fair value hierarchy tables for fiscal 2016 and 2015 in Note 5. There were no other impacts on the consolidated financial statements for fiscal 2016 and 2015.

Note 3. Contributions Receivable

Contributions receivable consist of the following pledges to CPT at July 31, 2016 and 2015:

(In thousands)	2016	2015
Amounts due in:		
Less than one year	\$ 35	\$ 56
One to five years	5	3
Total contributions receivable	40	59
Less unamortized discount	-	-
Present value of total contributions receivable	40	59
Less current contributions receivable	35	52
Non-current Contributions Receivable	\$ 5	\$ 7

The current contributions receivable and non-current contributions receivable are included in receivables and other assets, respectively, in the consolidated statements of financial position.

Note 4. Investment Securities

Investment securities owned by NASBA are required under the Board-approved investment policy 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 that are not correlated with the equity and fixed income asset classes and are intended to provide risk-versus-return characteristics that are beneficial to the portfolio. Additional information on the asset classes is disclosed in Note 5. At July 31, investment securities consisted of the following:

(In thousands)	2016	2015
Mutual funds	\$ 11,625	\$ 10,547
Exchange-traded funds	2,747	2,063
Separately managed accounts	3,619	3,157
U.S. Government and other debt obligations	12,708	12,565
Managed pool accounts	1,523	1,399
Total Investment Securities	\$ 32,222	\$ 29,731

Net investment income for the years ended July 31 consisted of the following:

(In thousands)	2016	2015
Interest and dividends	\$ 819	\$ 697
Realized and unrealized gains (losses) on investments	(374)	486
Investment fees and expenses	(108)	(104)
Total Investment Income	\$ 337	\$ 1,079

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Fair Value Accounting

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, 2016 and 2015, 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 as reported by the investment company which is derived from the value of the underlying investments. The valuation method used for the Level 3 investment securities are estimates which include the discounted cash flow method and/or capitalization rates 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 net asset value 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.

The fair value of investment securities at July 31, 2016 is as follows:

(In thousands)	Level 1	Level 2	Level 3	Total
Assets in the Fair Value Hierarchy:				
Mutual Funds				
Equity securities	\$ 8,063	\$ -	\$ -	\$ 8,063
Fixed income securities	2,731	-	-	2,731
Diversified investments	831	-	-	831
Exchange-traded Funds				
Equity securities	2,662	-	-	2,662
Diversified investments	85	-	-	85
Separately Managed Accounts				
Equity securities	3,619	-	-	3,619
U.S. Government and Other Debt Obligations				
Certificates of deposit	-	1,905	-	1,905
Treasury securities	-	2,520	-	2,520
Federal agency securities	-	3,532	-	3,532
Corporate bonds	-	4,751	-	4,751
Managed Pool Accounts				
Diversified investments	-	632	5	637
Total assets in fair value hierarchy	17,991	13,340	5	31,336
Investment measured at net asset value	-	-	-	886
Total Investment Securities	\$ 17,991	\$ 13,340	\$ 5	\$ 32,222

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Fair Value Accounting (Continued)

The fair value of investment securities at July 31, 2015 is as follows:

(In thousands)	Level 1	Level 2	Level 3	Total
Assets in the Fair Value Hierarchy:				
Mutual Funds				
Equity securities	\$ 5,829	\$ -	\$ -	\$ 5,829
Fixed income securities	4,065	-	-	4,065
Diversified investments	653	-	-	653
Exchange-traded Funds				
Equity securities	2,013	-	-	2,013
Diversified investments	50	-	-	50
Separately Managed Accounts				
Equity securities	3,157	-	-	3,157
U.S. Government and Other Debt Obligations				
Certificates of deposit	-	3,308	-	3,308
Treasury securities	-	2,508	-	2,508
Federal agency securities	-	3,490	-	3,490
Corporate bonds	-	3,259	-	3,259
Managed Pool Accounts				
Diversified investments	-	401	-	401
Total assets in fair value hierarchy	15,767	12,966	-	28,733
Investment measured at net asset value	-	-	-	998
Total Investment Securities	\$ 15,767	\$ 12,966	\$ -	\$ 29,731

During fiscal 2016, NASBA committed to contribute a total of \$500,000 to two separate investment funds which are Level 3 investment securities, of which \$5,000 has been contributed as of July 31, 2016. The commitments expire at various times during the next five 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 seven years from the end of the commitment period. There were no Level 3 investments in fiscal 2015. The activity for Level 3 investment securities for fiscal 2016 is as follows:

(In thousands)	Fair Value at August 1, 2015	Purchases	Gains (Losses)	Transfer Into and Out of Level 3	Fair Value at July 31, 2016
Diversified investments	\$ -	\$ 5	\$ -	\$ -	\$ 5

The managed pool account included in Level 2 investments may be redeemed on a daily basis. The investment measured at net asset value at July 31, 2016 and 2015 was invested with an investment company in which redemption is typically permitted on a quarterly basis with written notice generally no later than the 25th day of the month prior to the redemption date. The total amount of all requested redemptions from the managed pool for a quarter may be limited. Although the offer of redemption requires approval of the Board of Directors of the investment company, the redemption has been offered on a quarterly basis since inception.

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 2016 and 2015, 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. Note Receivable

NASBA has a promissory note (the "note") from the affiliate's wholly-owned subsidiary. The note bears interest at the Wall Street Journal Prime Rate plus 1.75%, which at July 31, 2016 equals 5.00%. The rate is reset annually on August 1 and currently is 5.25%. There are four quarterly payments remaining over the next year. Interest payments on the note in the amounts of \$43,000 and \$69,000 were received during fiscal 2016 and 2015, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Investment in Affiliate

NASBA has a 20% interest in a limited liability company ("LLC"). During fiscal 2016, NASBA exercised its preemptive rights to maintain a 20% interest and made an additional capital contribution to the LLC in the amount of \$500,000. The balance of \$784,000 and \$296,000 at July 31, 2016 and 2015, respectively, represents the initial carrying value and the additional capital contribution reduced by NASBA's share of the affiliate's cumulative net losses and a writedown of the investment in fiscal 2014.

Note 8. Property and Equipment

Property and equipment at July 31 consists of the following:

(In thousands)	2016	2015
Office and computer equipment	\$ 3,023	\$ 2,636
Furniture	1,380	1,316
Building and leasehold improvements	3,508	2,100
Total Property and Equipment	7,911	6,052
Accumulated depreciation and amortization	(2,869)	(4,802)
Net Property and Equipment	\$ 5,042	\$ 1,250

Note 9. Software Development Costs

Net software development costs remaining to be amortized at July 31, 2016 are as follows in thousands:

Fiscal 2017	\$ 151
Fiscal 2018	70
Fiscal 2019	28
Fiscal 2020	27
Fiscal 2021	16
Total Net Software Development Costs	\$ 292

In addition to the in-use software development costs in the above schedule, unamortized in-progress software development costs of approximately \$2,087,000 were capitalized during fiscal 2016. The software development projects to which these costs relate are anticipated to be completed during fiscal 2017.

Note 10. Other Long-term Liabilities

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

(In thousands)	2016	2015
Accrued rent payable	\$ 679	\$ 536
Deferred rent credit	1,172	44
Accumulated postretirement benefit obligation	266	215
Total Other Long-term Liabilities	\$ 2,117	\$ 795

Note 11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at July 31 have donor-imposed restrictions as follows:

(In thousands)	2016	2015
Time-restricted		
Multi-year pledges	\$ 1	\$ 7
Endowment investment income	3	5
Purpose-restricted	41	87
Total Temporarily Restricted Net Assets	\$ 45	\$ 99

Permanently restricted net assets at July 31 include:

(In thousands)	2016	2015
Endowment contributions receivable	\$ 5	\$ 6
Endowment fund	90	89
Total Permanently Restricted Net Assets	\$ 95	\$ 95

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

Unrestricted net assets include the unrestricted net assets (deficit) of CPT, which as of July 31, 2016 and 2015, respectively, are \$(95,000) and \$9,000.

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, 2019 between NASBA, AICPA and Prometric and expires on December 31, 2024 between NASBA and AICPA. The initial term, number of renewal options and renewal terms for each party to the Domestic Agreement are as follows:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Agreements to Provide Examination Services (Continued)

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.

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, 2016 and 2015, these escrow funds amounted to \$25,000,000 and \$21,000,000, respectively. At July 31, 2016, no portion of the \$9,000,000 escrow funds balance held in depository accounts exceeded FDIC insurance limits. The remaining balance was held in U.S. Treasury notes. 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 \$797,000 and \$767,000 for fiscal 2016 and 2015, 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, 2016 and 2015, the accumulated postretirement benefit obligation was determined by an independent actuarial valuation to be \$272,000 (\$266,000 noncurrent and \$6,000 current) and \$225,000 (\$215,000 noncurrent and \$10,000 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)	2016	2015
Components of net periodic cost:		
Service cost	\$ 19	\$ 20
Interest cost	8	8
Actuarial loss (gain)	33	(21)
Net periodic postretirement benefit cost	60	7
Plan participants' contributions	14	15
Benefits paid	(27)	(30)
Net change in benefit obligation	47	(8)
Benefit obligation at beginning of year	225	233
Benefit Obligation at End of Year	\$ 272	\$ 225

The discount rate used to value the obligation was 2.77% in fiscal 2016 and 3.75% in fiscal 2015. The assumed medical trend rate is 7.5% graded down to 4% over a period of 7 years and the assumed dental trend rate is 4% per annum. The approximate effect on the accumulated postretirement benefit obligation of a one percentage point change in the assumed health care cost trend rate is shown below:

(In thousands)	1% Increase in Rates	1% Decrease in Rates
Accumulated Postretirement Benefit Obligation Effect	\$ 30	\$ (24)

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 employee's retirement date. Employer contributions were \$13,000 and \$15,000 for fiscal 2016 and 2015, respectively. The following table shows approximate actuarial projections of expected future postretirement benefit payments in thousands:

Fiscal 2017	\$ 6
Fiscal 2018	12
Fiscal 2019	14
Fiscal 2020	17
Fiscal 2021	23
Fiscal 2022 through 2026	121

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Note 14. Capital Leases

During fiscal 2015, NASBA leased office equipment under a capital lease which ends in fiscal 2020. NASBA is obligated at July 31, 2016 with future minimum lease payments as follows in thousands:

Fiscal 2017	\$ 11
Fiscal 2018	11
Fiscal 2019	11
Fiscal 2020	1
Minimum lease payments	34
Less imputed interest	2
Present value of future lease payments	32
Less non-current portion	22
Current Obligation	\$ 10

The amortized cost of the office equipment under this capital lease is \$32,000 at July 31, 2016.

Note 15. Commitments

During fiscal 2015, NASBA extended its Nashville office space operating lease for approximately ten years. Additionally, in August 2016, NASBA extended the operating lease for its Guam office space through December 2018. NASBA has an option to terminate the lease which, if exercised, would allow for the earliest termination to occur as of December 31, 2017. NASBA has commitments for office space under operating leases that expire at various dates through fiscal 2028. Total scheduled rent payments under these leases are amortized to rent expense on a straight-line basis over the terms of the leases. Minimum lease payments are as follows in thousands:

Fiscal 2017	\$ 1,558
Fiscal 2018	1,088
Fiscal 2019	1,559
Fiscal 2020	1,521
Fiscal 2021	1,410
Thereafter	10,255
Minimum Lease Payments	\$ 17,391

NASBA subleases a portion of the leased office space to the affiliate's wholly-owned subsidiary. The term of the sublease is through May 31, 2017. As of July 31, 2016, total minimum rentals to be received in the future under the noncancelable lease term are \$121,000.

Net rent expense charged to operations for office space in fiscal 2016 and 2015 totaled \$1,502,000 and \$1,542,000, respectively. Rent expense for fiscal 2016 and 2015 has been reduced by \$144,000 and \$145,000, respectively, from sublease income.

NASBA is obligated at July 31, 2016 under various service agreements. Minimum payments remaining for these commitments are \$35,000 in fiscal 2017.

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 of 34% to income before income taxes as a result of the following:

(In thousands)	2016	2015
Statutory federal income tax benefit	\$ (82)	\$ (68)
State income taxes	(18)	(12)
Valuation allowance	110	81
Other	(10)	(1)
Income Tax Benefit	\$ -	\$ -

The deferred income tax asset consists of the following:

(In thousands)	2016	2015
Deferred income tax asset — long-term	\$ 190	\$ 81
Valuation allowance	(190)	(81)
Deferred Income Tax Asset	\$ -	\$ -

At July 31, 2016, Aequo had federal and state net operating loss carryforwards of \$460,000. The carryforwards expire at various dates from July 31, 2035 through 2036 for federal tax purposes and July 31, 2030 through 2031 for state tax purposes. The valuation allowance relates primarily to federal and state net operating loss carryforwards that may not be realized.

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, 2016 and 2015. 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 2013.

Note 17. Subsequent Events

Management has evaluated all material events and transactions that occurred from the date of the consolidated financial statements through September 22, 2016, 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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