National Association of State Boards of Accountancy, Inc.

Independent Auditors' Report and Consolidated Financial Statements

July 31, 2020 and 2019

NASBA

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 24, 2020

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, 2020 and 2019, 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 necessary material fact that the absence of would make the financial statements 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

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REPORT OF MANAGEMENT ***September 24, 2020***

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.

Ken L. Bishop
President & Chief Executive Officer

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

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

Troy A. Walker, CPA
Director, Finance & Controller

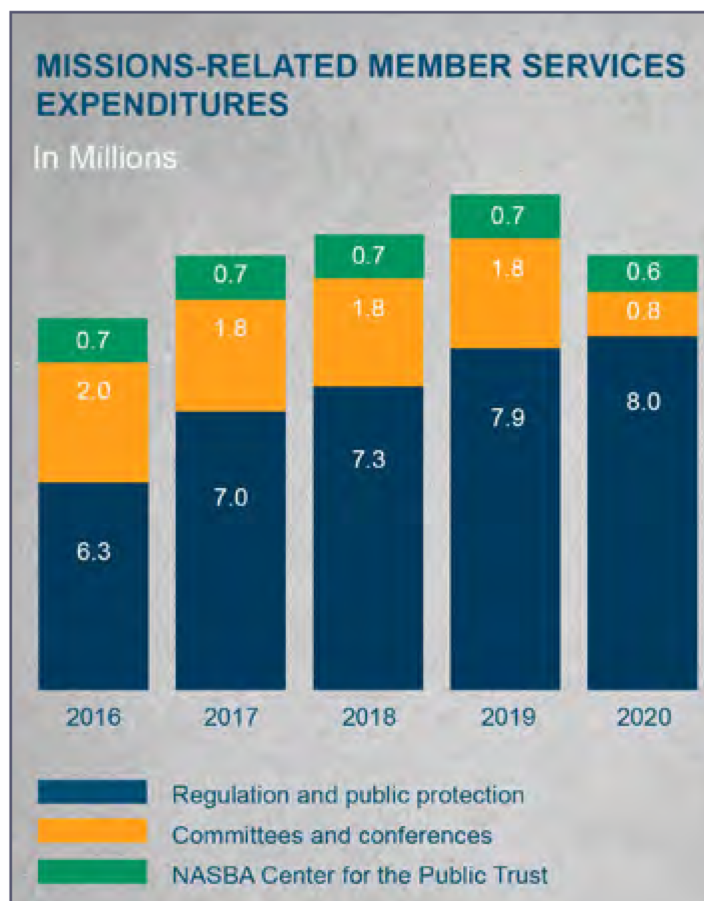
MISSION AND STRATEGIC OBJECTIVES

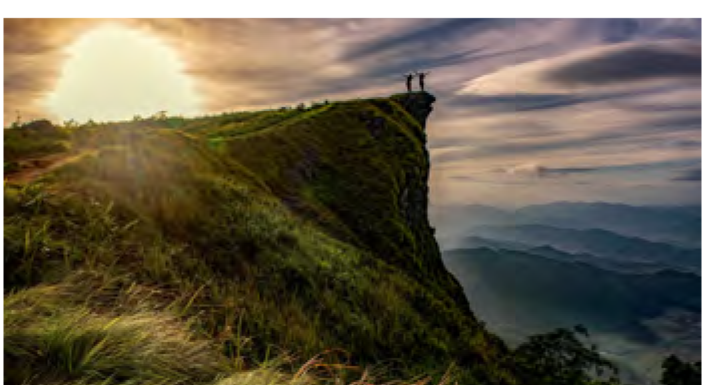
The Mission of the National Association of State Boards of Accountancy, Inc. (NASBA) is to enhance the effectiveness and advance the common interests of the Boards of Accountancy (Boards). The fifty-five member Boards of NASBA are comprised of the fifty U.S. states, the District of Columbia and the U.S. territories of Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico and the U.S. Virgin Islands. Executive management and staff of NASBA quantify the level of Mission support through matching the activities of NASBA with strategic objectives as formulated by volunteer leadership, Board volunteers and staff. These objectives guide resource deployment and provide emphasis on matters of importance to Boards. As such, they become guiding principles for staff, and for the organization, when commencing new services and endeavors.

- Relationships
- Advocate for Effective State Based Regulation
- Enforcement
- Effective Communication
- Operational Sustainability
- Diversity
- Ethics
- Legislative and Regulatory Support
- Education and Training
- Emerging Issues
- CPA Pipeline
- Leadership Development
- Technology Support

These strategic objectives go beyond Mission-related Member Services activities. They encompass operating services related to the examination and compliance activities such as licensing on behalf of Boards and continuing professional education requirements. Such services create the resources to support Boards in their day to day activities of regulation, and ultimately, to fulfill their role of public protection. Service examples include the Accountancy Licensee Database (ALD), Accountancy Licensing Library (ALL), CPE Audit Service, Board relations, legislative and governmental support, enforcement and peer review assistance, and work toward CPA Evolution.

Mission-related expenses also include funding of committees and conferences. There were twenty-three committees that focused on topics to enhance the effectiveness of CPA regulation. NASBA hosted five conferences, four of them virtually, comprised of the Annual Meeting, two Regional Meetings, and conferences for the Boards' Executive Directors, staff and legal counsels. Additionally, as its Ethics strategic objective arm, the activities of the NASBA Center for the Public Trust (CPT) are included in Mission-related expenses.





2020 HINDSIGHT

As did most organizations, NASBA experienced the impact of COVID-19 during fiscal 2020. NASBA's financial results were better than anticipated through the February 2020 mid-year point. But, as a result of the uncertainty created by the pandemic, the second half of fiscal 2020 underwent a marked decrease in the number of candidates who applied for the CPA Examination. This negatively impacted program revenue and operating results. To assist candidates who were having challenges in meeting testing dates, NASBA, working with the Boards, extended the Notice to Schedule (NTS) expiration dates. This delayed some candidate volume that possibly would have otherwise had to retest at an earlier point in time. Despite the negative impact to operating results, NASBA's leadership believed that the right thing to do was to give the candidates extra time to schedule. Also related to the COVID-19 situation and of negative impact to revenue was the shutdown of the Guam testing center due to a governmental order on the island.

The decline in candidate volume was steep at the onset in late February. Cash flow in the immediate months following was impacted similarly and, without quick responses, NASBA could have been forced to draw on its long-term investment reserves. NASBA managed through the financial difficulties caused by COVID-19 primarily through the furloughing of a significant number of staff from April 1 through the summer months of June and July, when volume increased and staff were brought back to work. A small number of staff were permanently laid off, generally due to the absence of need for their particular job. Other expense areas were reduced and there were significant savings from the prudent restrictions on travel and meetings during the pandemic. NASBA continued to assist Boards, their CPA Examination candidates, and licensees without interruption as a result of managements' actions and without any federal or other governmental assistance. Although quick actions avoided the use of long-term funds, the challenge of the last half of the fiscal year demonstrated the importance of having resource reserves that can be accessed in challenging business environments.

As shown in the previous two charts, although Missions spending decreased in fiscal 2020 compared to the prior year, the decrease is primarily the result of travel restrictions caused by COVID-19 in both Committees and conferences and, also, CPT. The amount spent on Regulation and public protection increased in fiscal 2020 compared to fiscal 2019. As previously stated, NASBA was able to continue the support for Boards in this area despite lower revenue and other effects caused by COVID-19.

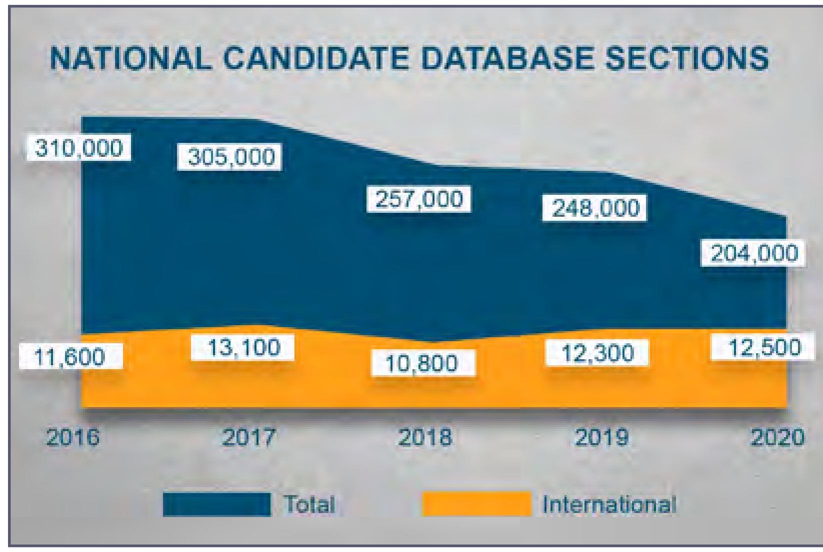
In addition to the disruption brought by COVID-19, the past year was a year of social unrest related to civil rights and racial issues. NASBA has a history of promoting and supporting diversity through its employment practices, its financial support for programs such as the PhD Project, and its work with other diversity-based accounting organizations. In fiscal 2020, NASBA recommitted it efforts towards equality for all and standing against systemic racism. NASBA leadership is committed to its role in enacting positive change in the profession and through its public protection influence. Work towards these principles of equality has been inherent in its Diversity strategic objective-related activities for many years.

It was a year of change from a financial reporting standpoint as well. Effective August 1, 2019, NASBA adopted the amendments of Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers (Topic 606)*. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods of services. NASBA adopted the new guidance using the modified retrospective method in which an adjustment to beginning net assets was made on August 1, 2019. As shown in the Consolidated Statements of Activities, beginning net assets were reduced by $685,000 for fiscal 2020. No retrospective change was made to fiscal 2019 using this method under the prescribed methodology of ASU 2014-09.

PROGRAM REVENUE

Mission spending, as previously discussed, is funded through the diverse revenue streams of NASBA. A majority of the revenue (96% in fiscal 2020) is derived from examination, licensing and related services. As shown in the Consolidated Statements of Activities and the chart depicting the different sources of program revenue, only a small percentage is derived from Board member dues, the contributions and program services of CPT, and other Mission-related services.

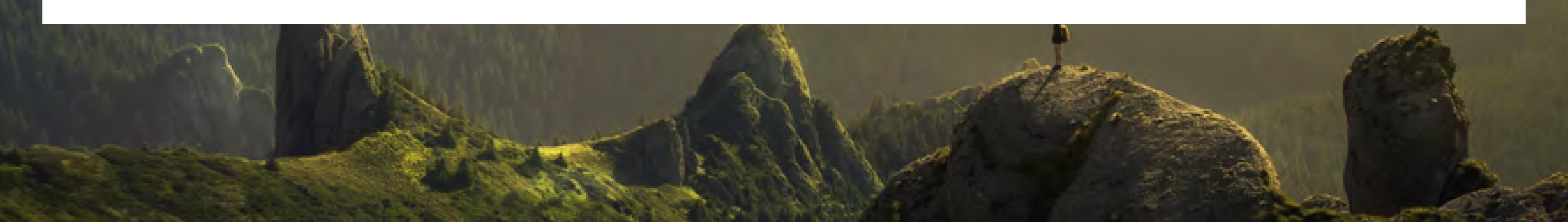
Examination and licensing revenue originate from fees for evaluating the credentials of individuals at various points leading to licensure as a CPA, and performed on behalf of Boards. Services such as application processing, credential evaluations, and score reporting are provided to candidates, ultimately seeking licensure, as a part of assistance to over one-half of the Boards in their examination-related responsibilities. Passing the examination is an essential requirement for becoming licensed. Along with the revenue directly related to the processing of candidates into the CPA Examination channel, NASBA earns revenue related to academic evaluation services for those who have completed education outside of the United States of America. Examination and licensing revenue also includes fees related to the operation of the National Candidate Database, a central, global information repository for all CPA Examination candidates. Through this database, NASBA assists in the process of testing candidates in both domestic and foreign locations. Once a candidate passes the CPA Examination, NASBA licensing services may also be provided to CPA candidates on behalf of some Boards.



In fiscal 2020, 204,000 examination sections were processed through the National Candidate Database. Included in this total are 12,500 sections related to candidates choosing to test at international locations. Due to the effect of the pandemic in the latter half of Fiscal 2020, section volume was down 18% from the prior year.

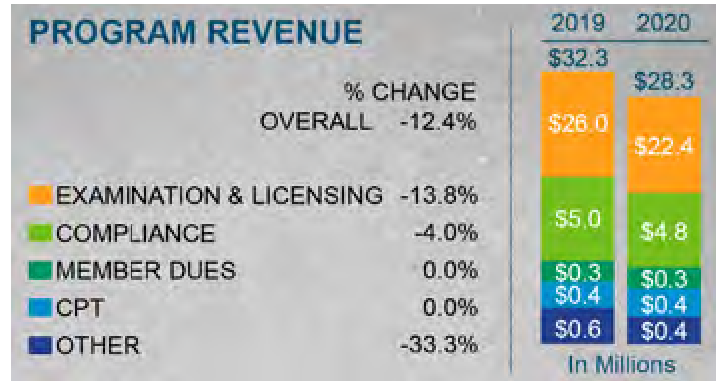
Additionally, NASBA assists Boards and CPA licensees by identifying quality continuing professional education providers that meet nationally accepted standards for development, presentation, measurement and reporting of educational programs through the National Registry of CPE Sponsors. Revenue is generated by evaluating CPE providers who commit to meeting the highest CPE program standards. To be approved, learning providers must demonstrate that professional competence of a participating CPA is enhanced by the programs offered. As a part of this service, the National Registry Summit is held annually which focuses on continuing professional education standards, improved delivery methods and increased learning effectiveness. NASBA also provides services in which entities receive CPA licensee-specific information by jurisdiction about their professional staff's CPE compliance. All of this revenue is included in Compliance services. Revenue related to these operations was not as significantly impacted by the pandemic as providers applied to be approved as online CPE content deliverers, which entails paying additional fees. However, the absolute number of sponsors declined as the economic environment caused by the pandemic took its toll.

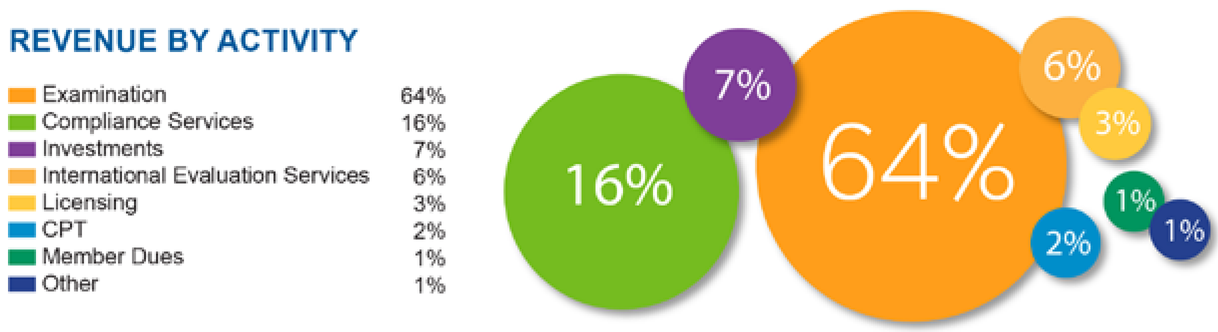
Member services, dues and other revenue in the Consolidated Statements of Activities includes Board dues, conference fees, and CPT-related revenue, including contributions and other program services.

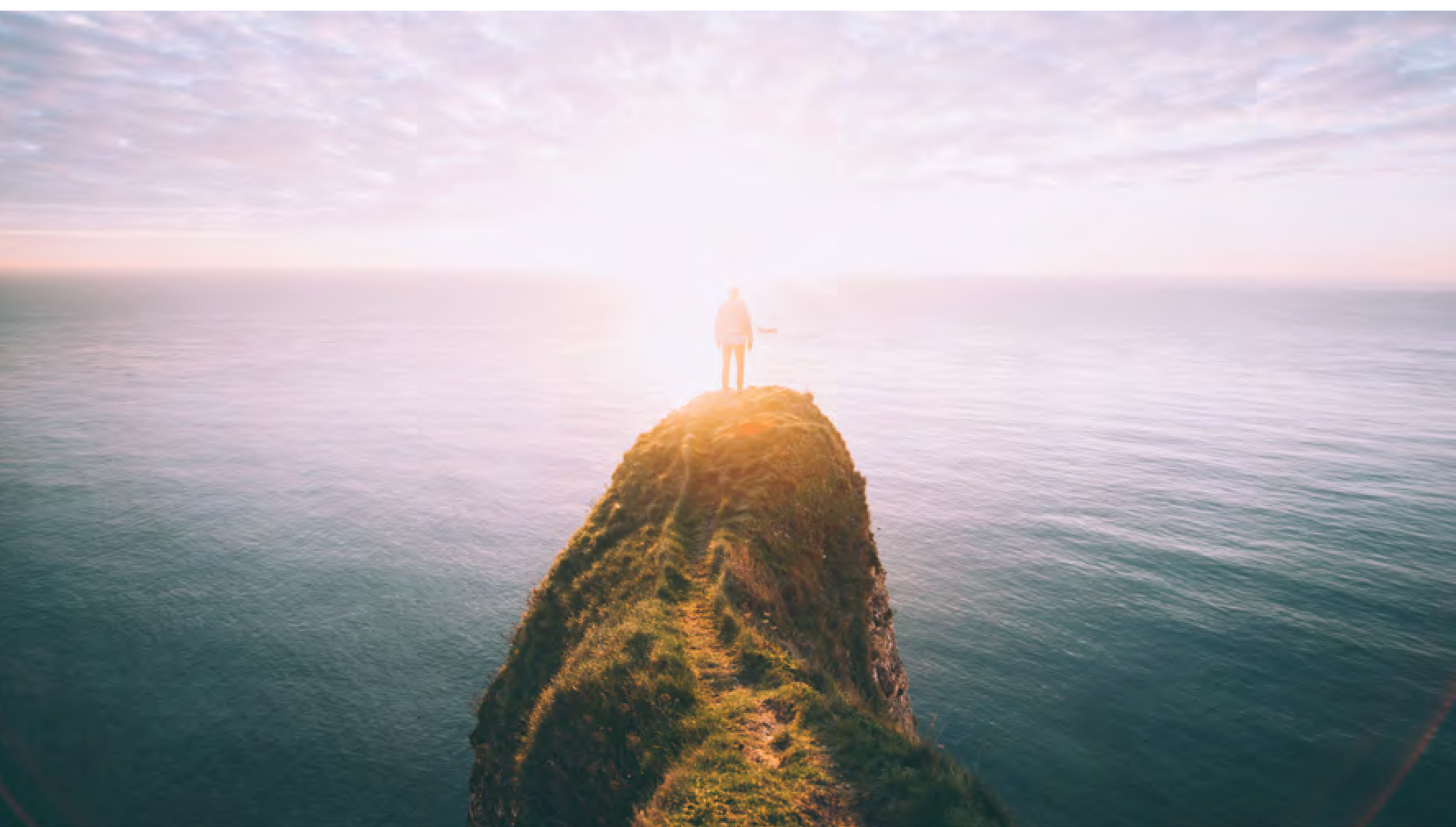


PROGRAM REVENUE (CONTINUED)

Total revenue in fiscal 2020 decreased by 12.4% from fiscal 2019. Most of this decrease is attributable to Examination and licensing which experienced a 13.8% decline in revenue from fiscal 2019. This decrease is the result of the various impacts of COVID-19 on examination-related services. As discussed, and also depicted in the chart on the previous page, application volume for the CPA Examination decreased in fiscal 2020. In addition, the extension of NTS expiration dates and other assistance to help candidates during this period had a direct impact on total revenue. Compliance services revenue and other revenue decreased by 4.0% and 33.3%, respectively, but, in absolute dollars, represents a decrease of only $0.4 million.





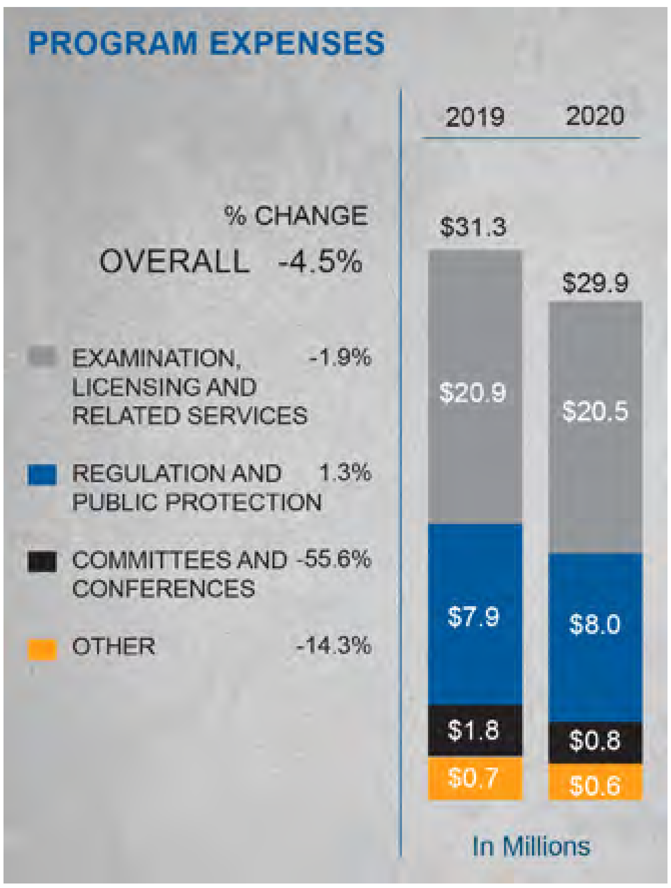


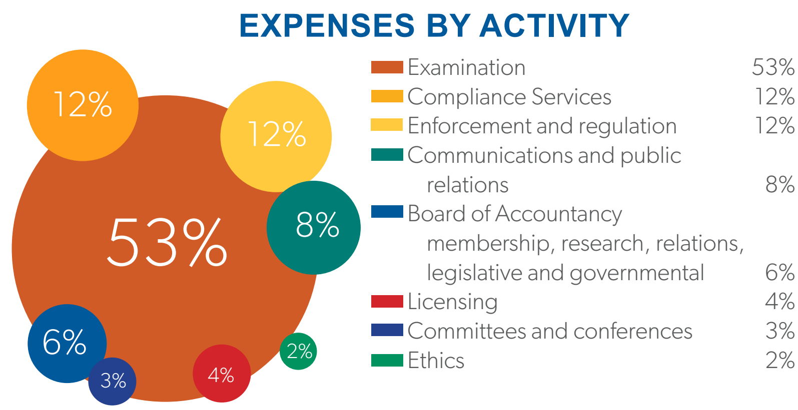
PROGRAM EXPENSES

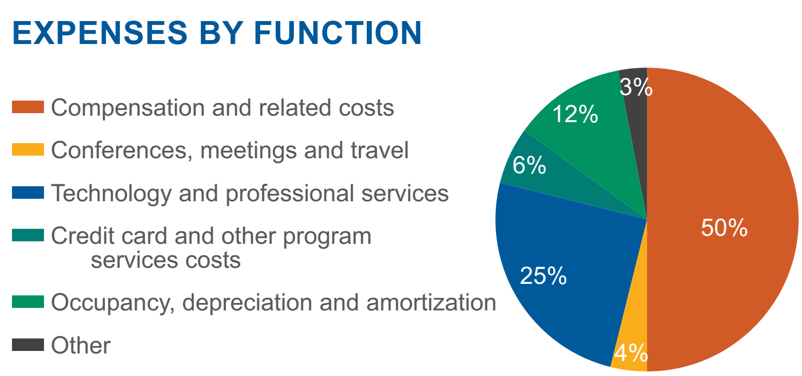
Total consolidated program expenses decreased by 4.5% from $31.3 million in fiscal 2019 to $29.9 million in fiscal 2020.

Most of this decrease is from Committees and conferences which was $1.0 million lower in fiscal 2020 than fiscal 2019 and represents 71% of the total $1.4 million decrease in program expenses. As previously discussed, NASBA held five conferences in fiscal 2020 just as were held in fiscal 2019. However, four of these five conferences were held virtually in fiscal 2020 rather than in person due to the COVID-19 travel restrictions.

The amount of total program expenses incurred for compensation and related expenses decreased in fiscal 2020 as compared to fiscal 2019 with a corresponding increase in professional services. This is the result of a full year of the outsourced managed IT services in fiscal 2020 compared to a partial year in fiscal 2019. The transition was completed in February 2019. Overall, total operating expenses for NASBA during fiscal 2020 were incurred on the following programs and services:



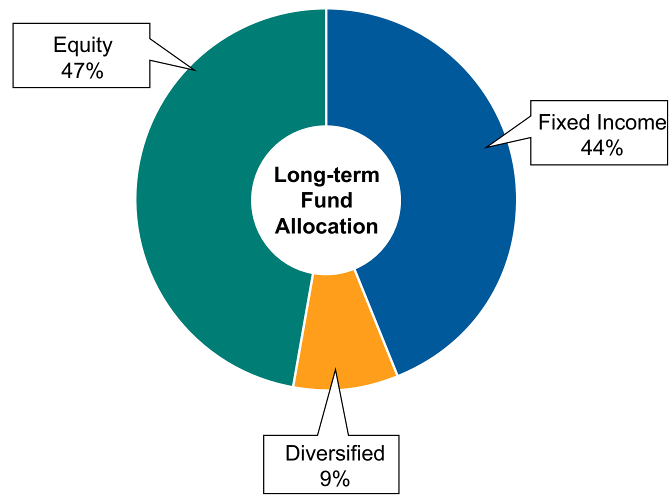




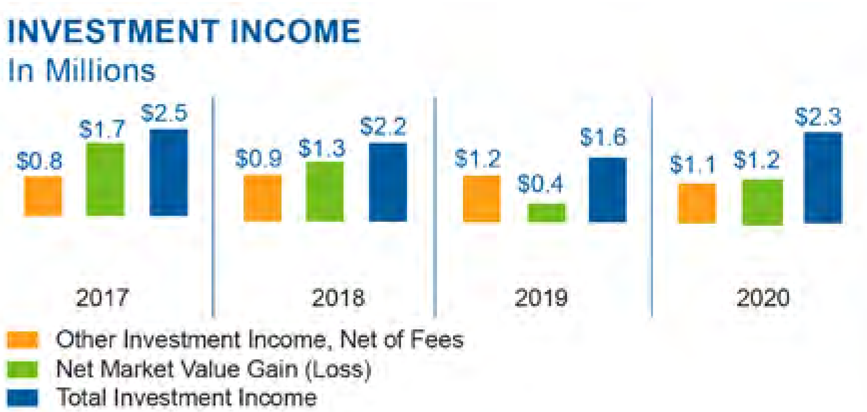
INVESTMENTS

NASBA has long-term investment securities which, if needed, provide liquidity in the event of significant capital endeavors, an economic downturn, or other disruptive events. Although these investment securities were not needed from a liquidity standpoint during fiscal 2020, their importance from a risk management perspective became abundantly clear as the health crisis unfolded. The availability of the long-term fund, and its conservative investment posture, provided financial stability, and allowed leadership to make mission-focused decisions without creating a short-term liquidity problem.

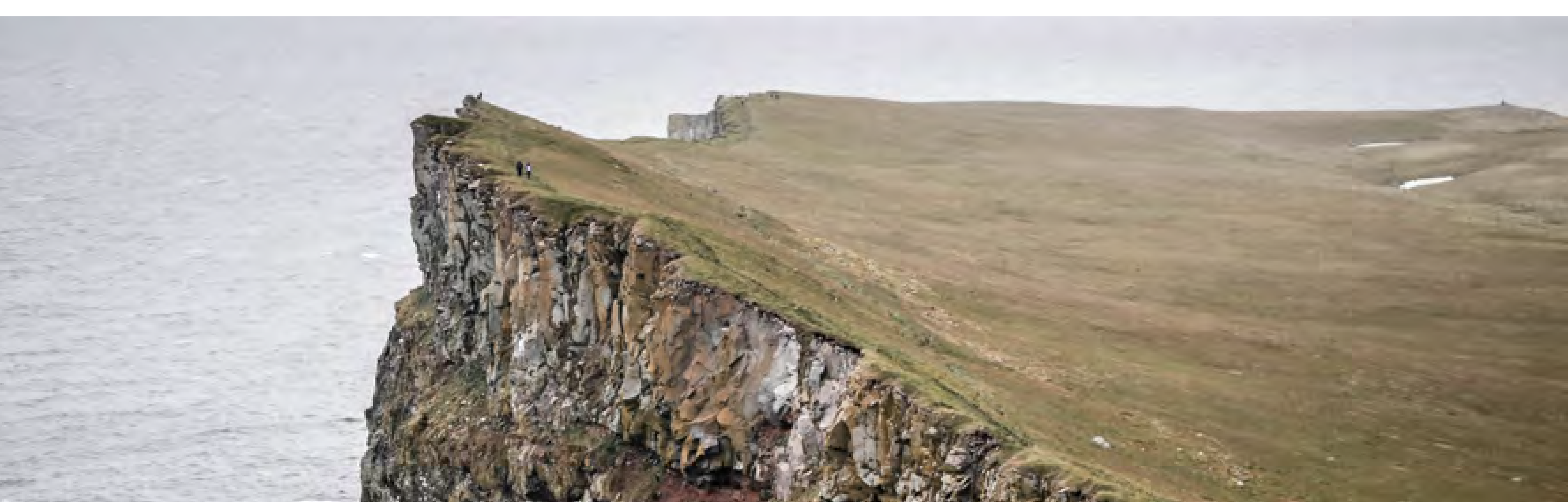
Investment securities are managed under a board-approved investment policy in which long-term investments are directed at the discretion of an investment advisor who is under the oversight of the NASBA Investment Committee. Approximately one-half of the investment securities balance at July 31, 2020 is invested in lower-risk investment securities such as federally insured certificates of deposit, U.S. Treasury and Federal Agency securities, corporate bonds with a rating of investment grade or better, other fixed income mutual funds, separately managed fixed income accounts and money market mutual funds.



After a decrease in market values during the middle of fiscal 2020, investment returns rebounded strongly through July 31, 2020. Total investment income for fiscal 2020 was $2.3 million with approximately one-half resulting from net market gains and the other half from other long-term investment interest, dividends and capital gain distributions, reduced by fees.



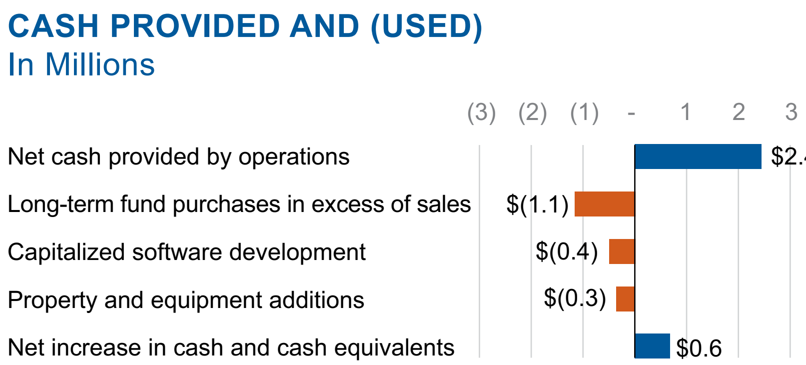
NASBA also has a minimal ownership percentage in a company that includes the operations of a former wholly owned subsidiary. This investment is shown as Investment in affiliate in the Consolidated Statements of Financial Position.



CASH FLOW, FINANCIAL POSITION AND LIQUIDITY

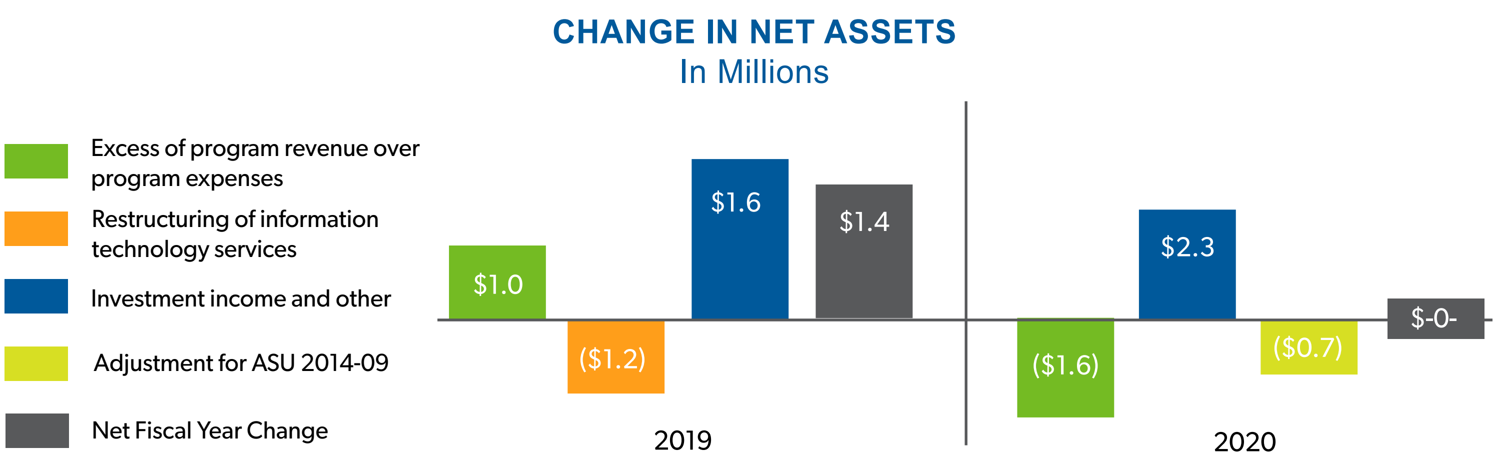
During fiscal 2020, cash and cash equivalents increased by a net of $0.6 million. The net long-term purchase of investment securities is primarily reinvested dividends. Capitalized software was lower in fiscal 2020 as new software project development slowed in the current fiscal year. Total cash and cash equivalents were $6.5 million at July 31, 2020.

NASBA did not have a need to liquidate any long-term financial assets during fiscal 2020 even though cash received from various services was lower than expected. Note 6 of the consolidated financial statements details the $50.2 million of financial assets available for general expenditure in fiscal 2021. Management does not anticipate the need to liquidate any long-term assets to meet cash needs during fiscal 2021.

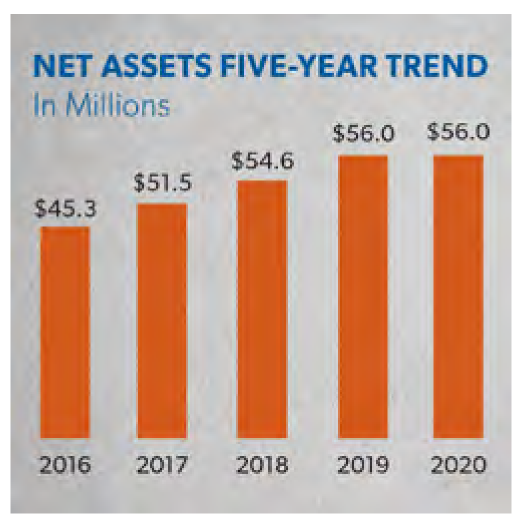


NET ASSETS

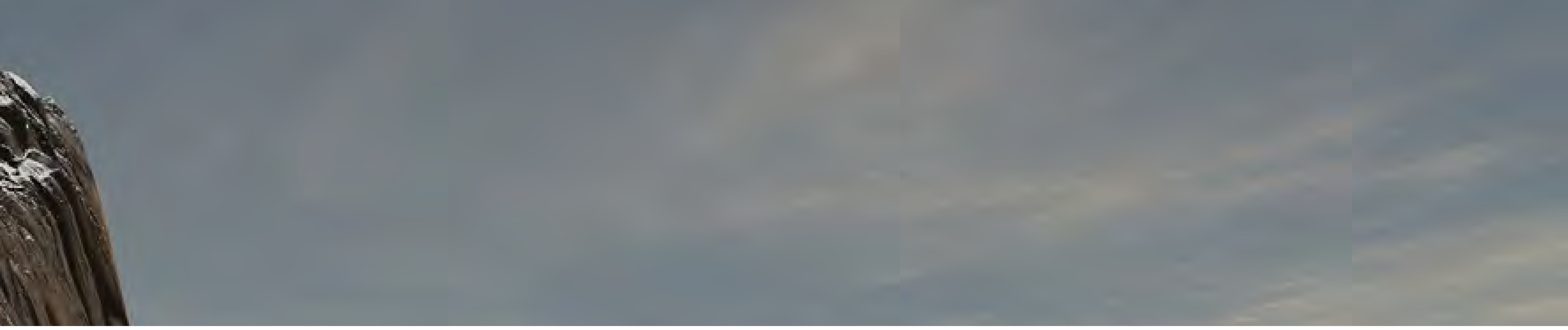
The total increase in net assets for fiscal 2020 is $0.7 million compared to an increase of $1.4 million in fiscal 2019. An excess of program expenses over program revenue in fiscal 2020 resulted in a net operating deficit which was offset by a greater amount of investment income.



As previously discussed, the adoption of the revenue recognition standard, ASU 2014-09, resulted in an adjustment (decrease) to beginning net assets of $685,000. This, and the fiscal 2020 increase in net assets of $665,000, resulted in only a minimal net decrease in total net assets from July 31, 2019 to July 31, 2020.



NASBA's remote workforce capability was in the process of development when the pandemic made it a necessity. It was a challenge for the organization to scale up quickly to work remotely. However, it was a challenge that was overcome with lessons learned about how to be better prepared in the future. NASBA's financial position has evolved since its relocation to Nashville twenty-three years ago. NASBA had set the foundation that allows it to continue the provision of services. As a result of its focus on conservative stewardship of the Organization's assets, NASBA has been able to face the headwinds, and ride the turbulent waves, of serious global economic challenges without detriment. This is what Resilience is all about—a culture of toughness and flexibility with the ability to remain buoyant in rushing waters. Not only do financial assets serve NASBA and Boards in this endeavor, but so do the investment in infrastructure and software tools necessary to serve the Boards and enhance their effectiveness. NASBA maintains a strong financial foundation to address the ever-changing landscape in the regulation by Boards and their role in the protection of the public. Although net assets did not increase in fiscal 2020, primarily from the accounting standard adoption, the financial stability of NASBA is as strong as at any point in the past. Management believes NASBA continues to maintain sufficient liquidity and resources to meet its needs in the short and long-term.



The pages that follow contain the Report of the Audit Committee, Independent Auditors' Report and the audited Consolidated Financial Statements of NASBA and its subsidiaries.

NASBA

National Association of State Boards of Accountancy

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REPORT OF AUDIT COMMITTEE ***September 24, 2020***

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, 2020, was charged by the Board of Directors with the responsibility for oversight of the annual independent audit of the consolidated financial statements.

In connection with the discharge of its responsibility,

- Prior to commencement of the year-end audit work, the Committee met with the independent auditors to discuss (1) the overall scope and specific plans for the conduct of the audit, (2) the performance of agreed-upon procedures related to the escrow accounts and (3) the accounting, reporting and internal control processes and procedures of the National Association of State Boards of Accountancy, Inc.;
- The Committee reviewed the Audit Committee Charter (the "Charter"), which governs the Committee's scope of responsibilities and actions, and assessed the need for Charter changes for recommendation to the Board of Directors;
- The Committee received presentations from the organization's Chief Information Security Officer summarizing the security program in place for the National Association of State Boards of Accountancy, Inc.;
- The Committee discussed with management and the auditors the impact of COVID-19 on business practices, related controls, financial reporting and risk areas relevant to the National Association of State Boards of Accountancy, Inc;
- After the completion of the audit, the Committee, along with members of senior management, met with the independent auditors to discuss the results of the audit and the agreed-upon procedures, and, without senior management present, the Committee discussed privately with the independent auditors any matters of concern of the independent auditors;
- 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, 2021; and
- The Committee utilized a compliance tool to self-assess the execution of its responsibilities as specified in the Charter and reviewed its own performance during the year.

Based on the above, the Committee believes that the annual independent audit and agreed-upon procedures were properly completed, management has maintained adequate systems and controls and followed the appropriate procedures related to financial accounting and reporting, and the Committee has fulfilled its duties in accordance with the Charter for the year ended July 31, 2020.

Respectfully submitted,

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

Faye D. Miller

By: Faye D. Miller, CPA, Chair

Other Members of the Committee
Timothy F. Egan, CPA
C. Larry Elmore, CPA
Michael T. Schmitz, CPA
Randa R. Vernon, CPA
Lydia M. Washington, CPA
Judy C. Wetherbee

LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the National Association of State Boards of Accountancy, Inc. and subsidiaries, which comprise the consolidated statements of activities and functional expenses for the years ended July 31, 2020 and 2019, the related consolidated statements of financial position as of July 31, 2020 and 2019, and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the changes in the net assets of the National Association of State Boards of Accountancy, Inc. and subsidiaries for the years ended July 31, 2020 and 2019, financial position as of July 31, 2020 and 2019, 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 24, 2020

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

	2020	2019
Program Revenue		
Examination, licensing and related services	$ 27,215	$ 30,984
Member services, dues and other revenue	1,097	1,296
Total program revenue	28,312	32,280
Program Expenses		
Examination, licensing and related services	20,509	20,938
Member services:		
Regulation and public protection	8,057	7,938
Committees and conferences	800	1,789
Other	574	664
Total program expenses	29,940	31,329
Restructuring of Information Technology Services	-	1,208
Total expenses	29,940	32,537
Excess of Expenses Over Program Revenue	(1,628)	(257)
Net Assets Released from Restrictions	-	33
Postretirement Benefit Credit (Cost)	2	(45)
Investment Income	2,260	1,613
Increase in Net Assets Without Donor Restrictions	634	1,344
Change in Net Assets With Donor Restrictions		
Restricted contributions and investment income	31	13
Net assets released from restrictions	-	(33)
Increase (Decrease) in Net Assets With Donor Restrictions	31	(20)
Increase in Net Assets	665	1,324
Net Assets, Beginning of Year	55,970	54,646
Adoption of Revenue Recognition Standard	(685)	-
Net Assets, End of Year	$ 55,950	$ 55,970

See Accompanying Notes to Consolidated Financial Statements

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

		Examination, licensing and related services		Member services		Total program expenses		Restructuring of information technology services		Total expenses
2020										
Compensation	$	8,039	$	3,539	$	11,578	$	-	$	11,578
Benefits, taxes and other employee costs		2,501		958		3,459		-		3,459
Conferences and meetings		86		529		615		-		615
Travel		85		429		514		-		514
Technology		1,327		691		2,018		-		2,018
Professional services		3,818		1,670		5,488		-		5,488
Credit card and other program service costs		1,696		19		1,715		-		1,715
Occupancy		1,140		589		1,729		-		1,729
Depreciation and amortization		1,187		663		1,850		-		1,850
Office		289		138		427		-		427
Marketing and community support		22		66		88		-		88
Other		319		140		459		-		459
Total	$	20,509	$	9,431	$	29,940	$	-	$	29,940

		Examination, licensing and related services		Member services		Total program expenses		Restructuring of information technology services		Total expenses
2019										
Compensation	$	8,909	$	3,669	$	12,578	$	242	$	12,820
Benefits, taxes and other employee costs		2,610		964		3,574		58		3,632
Conferences and meetings		110		1,136		1,246		-		1,246
Travel		157		1,026		1,183		-		1,183
Technology		1,438		670		2,108		-		2,108
Professional services		2,830		1,439		4,269		908		5,177
Credit card and other program service costs		1,767		21		1,788		-		1,788
Occupancy		1,109		540		1,649		-		1,649
Depreciation and amortization		1,217		507		1,724		-		1,724
Office		345		177		522		-		522
Marketing and community support		74		68		142		-		142
Other		372		174		546		-		546
Total	$	20,938	$	10,391	$	31,329	$	1,208	$	32,537

See Accompanying Notes to Consolidated Financial Statements

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

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 6,545	$ 5,911
Receivables	835	1,283
Prepaid expenses	1,372	988
Total current assets	8,752	8,182
Investments and Other Assets		
Investment securities, at fair value	43,379	41,180
Investment in affiliate	884	884
Other assets	158	210
Total investments and other assets	44,421	42,274
Property and Equipment	8,896	8,909
Less accumulated depreciation and amortization	4,069	3,481
Net property and equipment	4,827	5,428
Software Development Costs	12,260	11,931
Less accumulated amortization	3,421	2,411
Net software development costs	8,839	9,520
Total assets	$ 66,839	$ 65,404
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 5,440	$ 5,801
Deferred revenue	2,681	923
Capital lease, current	-	1
Other current liabilities	124	123
Total current liabilities	8,245	6,848
Long-term Liabilities	2,644	2,586
Total liabilities	10,889	9,434
Net Assets		
Without donor restrictions	55,732	55,783
With donor restrictions	218	187
Total net assets	55,950	55,970
Total liabilities and net assets	$ 66,839	$ 65,404

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

	2020	2019
Operating Activities		
Cash received for services	$ 32,236	$ 35,328
Cash received for membership dues	311	300
Cash received from donors to NASBA Center for the Public Trust	181	238
Interest and dividends received	1,346	1,342
Cash paid to employees, vendors and others	(32,699)	(32,547)
Cash paid for restructuring of information technology services	-	(1,208)
Cash received from examination candidates for examination partners	41,768	48,784
Cash paid to escrow accounts for examination partners	(40,745)	(49,487)
Net cash provided by operating activities	2,398	2,750
Investing Activities		
Property and equipment additions	(277)	(171)
Proceeds from property and equipment disposals	1	-
Capitalized software development costs	(364)	(2,136)
Purchases of investment securities	(20,934)	(9,841)
Proceeds from sale of investment securities	19,815	9,107
Other	(4)	(3)
Net cash used by investing activities	(1,763)	(3,044)
Financing Activities		
Principal payments on capital lease	(1)	(11)
Net cash used by financing activities	(1)	(11)
Net Increase (Decrease) in Cash and Cash Equivalents	634	(305)
Cash and Cash Equivalents, Beginning of Year	5,911	6,216
Cash and Cash Equivalents, End of Year	$ 6,545	$ 5,911

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

	2020	2019
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	$ 665	$ 1,324
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	840	899
Amortization of software development costs	1,010	825
Gains on investment securities	(1,080)	(413)
Recognition of deferred rent credit	(111)	(116)
Loss on disposals of property and equipment	1	30
Gains on endowment fund investment securities	(2)	-
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables	505	240
Prepaid expenses and other assets	(326)	21
Increase (decrease) in:		
Accounts payable, accrued and other liabilities	(104)	(319)
Deferred revenue	1,000	259
Net cash provided by operating activities	$ 2,398	$ 2,750
Non-cash Investing and Financing Activities		
Accrued costs for property and equipment additions	$ 17	$ 53
Accrued capitalized software development costs	$ -	$ 35

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

Note 2. Significant Accounting Policies

Basis of presentation

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

Principles of consolidation

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

New accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in ASU 2014-09, along with subsequently issued updates, provide a principles-based approach for accounting for revenue from contracts with customers. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also enhances the required disclosures to help users of the consolidated financial statements better understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. NASBA adopted the new guidance effective August 1, 2019, using the modified retrospective method. The change is discussed more fully in the revenue recognition section of Note 2.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendments in ASU 2016-01 address various improvements in recognition and measurement primarily as it relates to equity investments and financial liabilities under the fair value option, along with, the presentation and disclosure requirements for financial instruments. Among other changes, ASU 2016-01 replaced certain cost method investments with equity securities without a readily determinable fair value classification. The standard is effective for fiscal years beginning after December 15, 2018. NASBA adopted ASU 2016-01 effective August 1, 2019. The adoption of this standard had no material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in ASU 2018-08 apply to contributions received by a recipient and clarify and improve guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution within the scope of Topic 958, *Not-for-Profit Entities* or an exchange transaction within the scope of other guidance (such as Topic 606, *Revenue from Contracts with Customers*). The amendments clarify when a contribution is conditional and requires contributions to be recognized after conditions are met. The amendments also apply the same guidance to contributions made. The standard is effective for fiscal years beginning after December 15, 2018 for contributions received. NASBA adopted ASU 2018-08 effective August 1, 2019 for contributions received using the modified prospective basis. There was no impact on the consolidated financial statements. The standard is effective for fiscal years beginning after December 15, 2019 for contributions made. NASBA will adopt ASU 2018-08 effective August 1, 2020 for contributions made.

Note 2. Significant Accounting Policies (Continued)

New accounting pronouncement

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments in ASU 2018-05 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. NASBA adopted ASU 2018-15 effective August 1, 2019. Prospective application to implementation costs incurred after the date of adoption was made in the consolidated financial statements. There were no material implementation costs which required capitalization during fiscal 2020 associated with a hosting arrangement that is a service contract.

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, 2020, the portion of the balance exceeding the FDIC insurance limits is approximately $1,100,000 which includes the amount reported in Note 12.

Receivables and credit policies

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

The carrying amount of all receivables is evaluated and reduced by a valuation allowance, if necessary. The need for an allowance is determined based on management's knowledge of its customers, contributors, historical loss experience and existing economic conditions. Management has determined that no allowance is required at July 31, 2020 or 2019.

Prepaid expenses

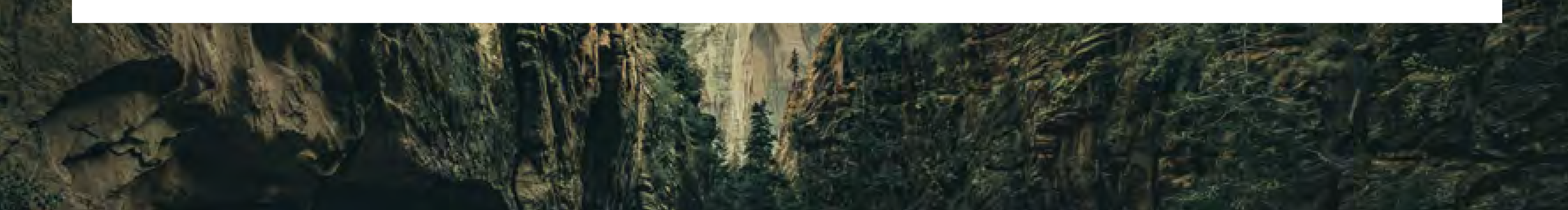
Prepaid expenses consist primarily of prepaid insurance premiums, equipment maintenance contracts, subscription services, and travel and meeting costs. The asset is expensed in the period to which the benefit applies.

Investment securities

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

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

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



Note 2. Significant Accounting Policies (Continued)

Investment in affiliate

As of August 1, 2019, NASBA adopted ASU 2016-01. Prior to that date, NASBA's investment in an affiliate was accounted for under the cost method. Under the cost method, the carrying value of the investment was assessed annually and an adjustment to the value would have been made if any loss was deemed to be other than a temporary decline. In electing to measure the investment in affiliate under the new standard, investments in equity securities of nonpublic entities without readily determinable fair values are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. NASBA reviews the investment in affiliate on a regular basis to determine if the investment is impaired. Factors such as the investee's earnings and revenue outlook, liquidity and management ownership are considered in its review. If management's assessment indicates that an impairment exists, NASBA estimates the fair value of the equity investment and recognizes in current earnings an impairment loss that is equal to the difference between the fair value of the equity investment and its carrying amount. NASBA also reviews any observable transactions related to its securities that are similar and which might indicate a change in fair value at the date of the transaction.

Property and equipment

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

Software development costs

Costs associated with the development of software for internal use are capitalized and amortized over the software's useful life which range from 5 to 12 years. Amortization begins when the software is ready for its intended use. Software development costs are recorded in the consolidated statements of financial position until the software is no longer used. Software development costs are discussed more fully in Note 9. In addition, NASBA has various software hosting arrangements that are accounted for as service contracts.

Realization of long-lived assets

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

Net assets

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

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

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

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

Note 2. Significant Accounting Policies (Continued)

Revenue recognition

Revenue for the Association from examination, licensing and related services primarily consists of various fees from individuals seeking to qualify for the CPA license. The Association facilitates the Boards of Accountancy by evaluating the credentials of individuals at various points leading to licensure as a CPA. Similar services are provided by Aequo for professions other than CPAs. In addition, revenue for the Association is generated by evaluating CPE providers that meet established standards for education programs. Revenue from these services are mostly recognized over time as progress towards completion of the evaluations are made, as this measures the value of the service transferred to the customer. For most of these services, there is one performance obligation associated with the fee from the customer which represents the transaction price. For those with multiple performance obligations, the total fee is representative of each separate standalone price.

To determine the transaction price of examination, licensing and related services that also includes variable consideration, an estimated amount of variable consideration is determined at the outset of the contract utilizing the expected value method. NASBA constrains (reduces) the estimated variable consideration such that it is probable that a significant reversal of previously recognized revenue will not occur throughout the life of the contract. When determining if variable consideration should be constrained, management considers whether there are factors outside of NASBA's control that could result in a significant reversal of revenue by considering the likelihood and magnitude of a potential reversal of revenue. These estimates are re-assessed each reporting period as required.

Also included in revenue from examination, licensing and related services is a service provided by the Association in which the customer receives CPA licensee-specific information about the customer's employees' CPE compliance by jurisdiction. Multiple services may be provided to the customer but, in total, represents a single performance obligation. Revenue for this service is recognized ratably over time using the straight-line method as the service is generally provided daily.

Revenue for the Association from member services, dues and other revenue consists primarily of a subscription service containing jurisdictional laws and rules governing CPAs, membership dues and conference fees. Each of these services represent a single performance obligation. For both the subscription service and membership dues, revenue is recognized over time using the straight-line method as the performance obligations are satisfied. Conference fees are recognized at a point in time when the event is held.

Also included in revenue from member services, dues and other revenue are the program services of CPT. These services primarily represent online training courses which are recognized at a point in time when access is provided to the customer.

The following is the amount of revenue recognized in the consolidated statement of activities from contracts with customers and other sources of revenue for fiscal 2020:

(In thousands)		Revenue from contracts with customers		Other sources of revenue
Examination, licensing and related services	$	27,215	$	-
Member services, dues and other revenue		942		155
Total Revenue	$	28,157	$	155

For fiscal 2020, total revenue recognized over time was $26,492,000 and total revenue recognized at a point in time was $1,665,000.

NASBA accounts for taxes collected from customers and remitted to governmental entities on a net basis.

Unconditional contributions to CPT are recognized as revenue when the contribution or pledge is received. Contributions with a condition stipulated by the donor are recognized as revenue when the condition is substantially met by CPT.

NASBA primarily receives payment in advance at the time the services are requested by the customer. In all other instances, NASBA receives payment from customers based on billing schedules established in its contracts. NASBA's right to consideration that is unconditional and has been invoiced is considered to be a receivable. Contract assets include amounts for which NASBA has a right to consideration in exchange for goods or services that NASBA has transferred to the customer but has not invoiced. These contract assets total $258,000 and $201,000 at July 31, 2020 and August 1, 2019, respectively, and are included in Receivables in the consolidated statements of financial position. Deferred revenue in the consolidated statements of financial position represent contract liabilities for which NASBA has received consideration and is obligated to transfer goods or services to the customer. These contract liabilities total $2,681,000 and $1,681,000 at July 31, 2020 and August 1, 2019, respectively.

Note 2. Significant Accounting Policies (Continued)

Revenue recognition

NASBA adopted ASU 2014-09 on August 1, 2019, using the modified retrospective method. The adoption resulted in a decrease to beginning Net assets without donor restrictions of $685,000 and Accounts payable and accrued liabilities of $16,000 along with an increase to beginning Deferred revenue of $758,000 and Receivables of $57,000. The adjustments primarily related to the timing of recognizing revenue for evaluating credentials related to CPA licensure and CPE providers.

The period prior to August 1, 2019 is presented in accordance with prior revenue recognition guidance, Topic 605, *Revenue Recognition*. Revenue for examination and licensing program fees were recognized as revenue when the services to which they related were completed. Fees for services provided over a period of time were recognized ratably during the period. Fees for conferences and meetings, and related expenses, were recognized when the event occurred. Fees received in advance for services that were to be performed in future periods were included in deferred revenue.

Management and administrative costs

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

Income taxes

The Association is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(6) and applicable state tax statutes. CPT is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and applicable state tax statutes. The Association and CPT are subject to tax on any income unrelated to their exempt purposes, unless that income is otherwise excluded by the Internal Revenue Code. Aequo has elected to be taxed as a corporation. Aequo accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the estimated tax benefit of carryforwards and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Valuation allowances are provided if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Income taxes are discussed more fully in Note 15.

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.

Note 3. Restructuring of Information Technology Services

Effective November 7, 2018, NASBA entered into a multi-year Managed IT Services Agreement ("IT Agreement") to outsource most of the information technology services to a vendor. Under the IT Agreement, the vendor will perform the application and infrastructure services. While NASBA has certain termination options under the contract, if not terminated early, the aggregate contractual payments due would be $33,409,000 (including cost of living adjustments) over the term of the contract.

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

Note 4. Contributions Receivable

Contributions receivable consisting of pledges to CPT at July 31, 2020 and 2019 total $26,000 and $30,000, respectively. These amounts are due in less than one year at their respective dates. Contributions receivable are included in Receivables in the consolidated statements of financial position.

Note 5. Fair Value Measurement

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

Note 5. Fair Value Measurement (Continued)

At July 31, 2020 and 2019, the valuation method used to determine fair value for Level 1 investment securities is the last reported sales price on the last business day of the fiscal year reported by the active markets in which the individual securities are traded. The valuation methods used for Level 2 investment securities are estimates using market-based measurements, such as quoted prices for similar assets, executed trades and yield curves, for U.S. Government and other debt obligations and, for managed pool accounts, the net asset value ("NAV") as reported by the investment company which is derived from the value of the underlying investments. There have been no changes in the valuation methods used.

Effective August 1, 2019, investment securities previously reported as Level 3 in the fair value hierarchy were changed to NAV as a practical expedient. These investment securities meet the criteria for this measurement. NAV as a practical expedient is a better representation of the method used to value these investment securities. This change in accounting principle was applied retrospectively and had no effect on previously reported investment securities value or disclosures pertaining to these investment securities other than the presentation of the investment securities previously being reported within the fair value hierarchy and currently reported in investments measured at NAV as a practical expedient. The total amount of these investment securities included in investments measured at NAV as a practical expedient is $475,000 and $505,000 at July 31,2020 and 2019, respectively.

In addition to the previous Level 3 investment securities now measured at NAV as a practical expedient, certain other investments are also measured at NAV as a practical expedient to estimate fair value, and therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

The fair value of investment securities at July 31, 2020 is as follows:

(In thousands)	Level 1	Level 2	Total
Assets in the Fair Value Hierarchy:			
Mutual Funds			
Equity securities	$ 12,599	$ -	$ 12,599
Fixed income securities	1,456	-	1,456
Diversified investments	849	-	849
Money market	1,964	-	1,964
Total mutual funds	16,868	-	16,868
Exchange-traded Funds			
Equity securities	4,937	-	4,937
Total exchange-traded funds	4,937	-	4,937
Separately Managed Accounts			
Equity securities	2,703	-	2,703
Fixed income securities	2,559	-	2,559
Total separately managed accounts	5,262	-	5,262
U.S. Government and Other Debt Obligations			
Certificates of deposit	-	4,349	4,349
Treasury securities	-	617	617
Federal agency securities	-	983	983
Corporate bonds	-	7,339	7,339
Total U.S. government and other debt obligations	-	13,288	13,288
Managed Pool Accounts			
Diversified investments	-	577	577
Total managed pool accounts	-	577	577
Total assets in fair value hierarchy	$ 27,067	$ 13,865	40,932
Investments measured at NAV as a practical expedient:			
Diversified investments			2,447
Total Investment Securities			$ 43,379

Note 5. Fair Value Measurement (Continued)

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

(In thousands)	Level 1	Level 2	Total
Assets in the Fair Value Hierarchy:			
Mutual Funds			
Equity securities	$ 13,609	$ -	$ 13,609
Fixed income securities	3,060	-	3,060
Diversified investments	1,401	-	1,401
Money market	1,315	-	1,315
Total mutual funds	19,385	-	19,385
Exchange-traded Funds			
Equity securities	1,335	-	1,335
Total exchange-traded funds	1,335	-	1,335
Separately Managed Accounts			
Equity securities	2,613	-	2,613
Fixed income securities	2,332	-	2,332
Total separately managed accounts	4,945	-	4,945
U.S. Government and Other Debt Obligations			
Certificates of deposit	-	2,419	2,419
Treasury securities	-	2,315	2,315
Federal agency securities	-	2,494	2,494
Corporate bonds	-	5,025	5,025
Total U.S. government and other debt obligations	-	12,253	12,253
Managed Pool Accounts			
Diversified investments	-	582	582
Total managed pool accounts	-	582	582
Total assets in fair value hierarchy	$ 25,665	$ 12,835	38,500
Investments measured at NAV as a practical expedient:			
Diversified investments			2,680
Total Investment Securities			$ 41,180

NASBA has committed to contribute a total of $750,000 to three separate investment funds which are measured at NAV as a practical expedient. Capital contributions were $100,000 and $124,000 in fiscal 2020 and 2019, respectively. At July 31, 2020, $280,000 of the total commitment remains including recallable distributions. The commitments expire at various times during the next year ("commitment period"). These funds have a strategy of investing in real estate, natural resources, power generation assets, financially distressed companies, and other private equity opportunities. Distributions will be made periodically over a period, including extensions, of up to approximately nine years from the end of the commitment period.

The two other investments measured at NAV as a practical expedient at July 31, 2020 and 2019 were invested with investment companies in which redemption is typically either permitted on a quarterly basis with written notice no later than the 25th day of the month prior to the redemption date or on a monthly basis with written notice no later than the second to last business day of the month. The total amount of all requested redemptions for each period may be limited. For one of the investments, shares that have not been outstanding for at least one year will be repurchased at 95% of the transaction price.

The managed pool account included in Level 2 investments may be redeemed on a daily basis.

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 2020 and 2019, NASBA did not measure any nonfinancial assets at fair value or recognize any amounts in the consolidated financial statements related to changes in fair value for nonfinancial assets.

Note 6. Liquidity and Availability

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

(In thousands)		2020		2019
Cash and cash equivalents	$	6,545	$	5,911
Receivables		835		1,283
Investment securities, at fair value		43,379		41,180
Investment in affiliate		884		884
Endowment fund (included in Other assets)		123		117
Total financial assets		51,766		49,375
Investment securities with liquidity horizons greater than one year		(475)		(505)
Investment in affiliate		(884)		(884)
Donor-imposed restrictions on CPT financial assets		(218)		(187)
Financial assets available to meet cash needs for general expenditures within one year	$	50,189	$	47,799

Annual operating and capital expenditures, along with other liabilities and obligations, are anticipated to be funded primarily through cash received for services. NASBA invests excess cash in both short-term and long-term investment securities based on the anticipated time horizon of general expenditure requirements. As more fully described in Note 5, $19,267,000 and $18,960,000 of long-term investment securities at July 31, 2020 and 2019, respectively, are invested in lower risk fixed income and money market securities. In addition, $23,637,000 and $21,715,000 are in securities which could be liquidated within one year at July 31, 2020 and 2019, respectively. If circumstances required expenditures that could not be funded through current financial assets, investment securities could be sold to meet the need. The remaining $475,000 and $505,000 at July 31, 2020 and 2019, respectively, is invested in securities with redemption limitations.

As of the date this report was available to be issued, the United States, as well as many other countries around the world, was experiencing an emerging infectious disease (COVID-19) outbreak, impacting individuals, governments, businesses and financial markets with unprecedented disruption and risk. While it is not possible to predict the future impacts of the outbreak on NASBA's financial condition and results of operations, significant disruptions to key business drivers, such as customer demand, supply chain, workforce, and production, are possible. As of the date of this report, NASBA has not experienced any significant adverse effects. Management is closely monitoring the situation and continues to develop strategies designed to mitigate such impacts.

Note 7. Investment in Affiliate

NASBA holds an equity interest in a privately held limited liability company which is accounted for as described in Note 2. No impairment was deemed present and no adjustment to the carrying value was made in fiscal 2020 or 2019. In addition, there were no adjustments to the amount of the investment in affiliate since being measured as an equity security without readily determinable fair value or as a cost method investment in the previous years.

Note 8. Property and Equipment

Property and equipment at July 31 consists of the following:

(In thousands)		2020		2019
Office and computer equipment	$	2,561	$	2,566
Furniture		1,933		1,941
Building and leasehold improvements		4,402		4,402
Total Property and Equipment		8,896		8,909
Accumulated depreciation and amortization		(4,069)		(3,481)
Net Property and Equipment	$	4,827	$	5,428

Note 9. Software Development Costs

The estimated amortization expense of software development costs for the succeeding five fiscal years at July 31, 2020 is as follows in thousands:

Fiscal 2021	$	1,024
Fiscal 2022		1,008
Fiscal 2023		1,008
Fiscal 2024		1,008
Fiscal 2025		992

Note 10. Long-term Liabilities

Long-term liabilities at July 31 consist of the following:

(In thousands)		2020		2019
Accrued rent payable	$	1,619	$	1,463
Deferred rent credit		713		824
Accumulated postretirement benefit obligation		312		299
Total Long-term Liabilities	$	2,644	$	2,586

Note 11. Net Assets With Donor Restrictions

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

(In thousands)		2020		2019
Time and purpose-restricted endowment investment income	$	30	$	24
Purpose-restricted		95		70
Endowment fund		93		93
Total Net Assets With Donor Restrictions	$	218	$	187

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

Net assets without donor restrictions include the net assets without donor restrictions of CPT, which as of July 31, 2020 and 2019, respectively, are $550,000 and $322,000.

Note 12. Agreements to Provide Examination Services

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

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

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

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

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, 2020 and 2019, these escrow funds amounted to approximately $22,000,000 and $23,000,000, respectively. These funds are held in depository accounts and U.S. Treasury notes. At July 31, 2020, approximately $800,000 of the escrow funds balance held in depository accounts temporarily exceeded FDIC insurance limits pending a cash transfer between accounts. 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 $655,000 and $717,000 for fiscal 2020 and 2019, 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. During fiscal 2020, eligibility was closed to future participants. At July 31, 2020 and 2019, the accumulated postretirement benefit obligation was determined by an independent actuarial valuation to be $324,000 ($312,000 noncurrent and $12,000 current) and $309,000 ($299,000 noncurrent and $10,000 current), respectively, and is included in the consolidated statements of financial position.

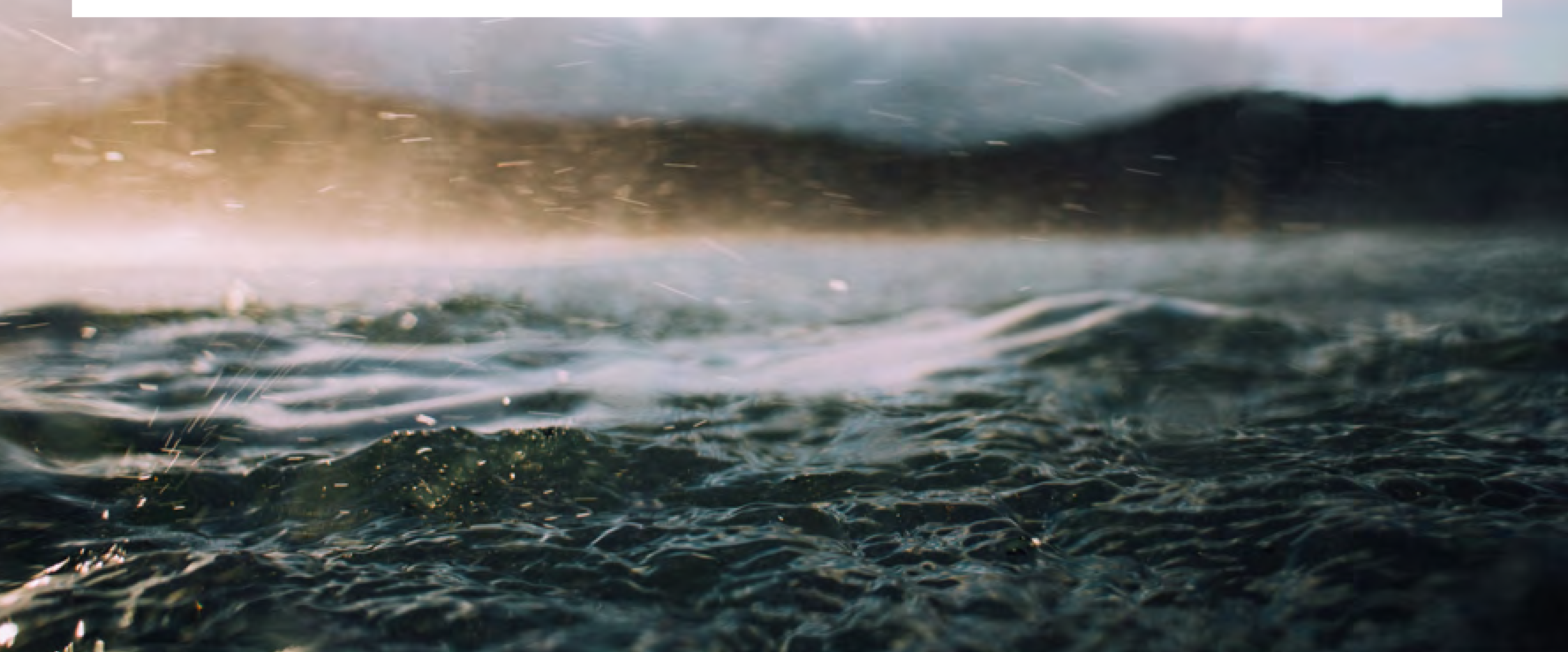
The following table sets forth the components of net periodic postretirement benefit cost and the change in the benefit obligation:

(In thousands)		2020		2019
Components of net periodic cost:				
Service cost	$	25	$	19
Interest cost		9		9
Actuarial (gain) loss		(11)		36
Net periodic cost		23		64
Plan participants' contributions		7		8
Benefits paid		(15)		(16)
Net change in benefit obligation		15		56
Benefit obligation at beginning of year		309		253
Benefit Obligation at End of Year	$	324	$	309

The discount rate used to value the obligation was 1.54% in fiscal 2020 and 2.89% in fiscal 2019. The assumed medical trend rate is 7.25% graded uniformly to 6.5% over a period of 3 years and the assumed dental trend rate is 4% per annum.

The obligation will be funded on a cash basis through partial payment of medical insurance plan premiums for a five-year period at each eligible employee's retirement date. Employer contributions were $8,000 in fiscal 2020 and 2019. The table shows approximate actuarial projections of expected future postretirement benefit payments in thousands:

Fiscal 2021	$	12
Fiscal 2022		16
Fiscal 2023		21
Fiscal 2024		25
Fiscal 2025		34
Fiscal 2026 through 2030		116



Note 14. Commitments

In February 2019, NASBA extended the operating lease for its New York office space through October 2028. As a part of the extended operating lease, both NASBA and the lessor have the right to terminate the lease effective October 2023. NASBA has a commitment for its Nashville office space under an operating lease that expires in January 2028. In July 2020, NASBA amended the operating lease for its Nashville office space which deferred a portion of the monthly minimum lease payments from fiscal 2020 to fiscal 2021 and fiscal 2022. This amendment did not change the total minimum lease payments required under the lease. NASBA also has a commitment for its Guam office space through December 2022. 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 2021	$	1,822
Fiscal 2022		1,836
Fiscal 2023		1,738
Fiscal 2024		1,591
Fiscal 2025		1,586
Thereafter		4,182
Minimum Lease Payments	$	12,755

Net rent expense charged to operations for office space in fiscal 2020 and 2019 totaled $1,729,000 and $1,649,000, respectively.

In addition to commitments for office space, NASBA has a commitment for information technology hosting services for 2021 and 2022. The commitment for this service is $675,000 each fiscal year. Also, NASBA has other various commitments for subscription services as follows in thousands:

Fiscal 2021	$	185
Fiscal 2022		175
Fiscal 2023		59
Fiscal 2024		41
Fiscal 2025		41

Note 15. Income Taxes

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

(In thousands)		2020		2019
Statutory federal income tax benefit	$	(25)	$	(35)
State income taxes		(8)		(10)
Change in valuation allowance		31		41
Other		2		4
Income Tax Benefit	$	-	$	-

The deferred income tax asset consists of the following:

(In thousands)		2020		2019
Deferred income tax asset	$	340	$	309
Valuation allowance		(340)		(309)
Net Deferred Income Tax Asset	$	-	$	-

At July 31, 2020, Aequo had federal and state net operating loss carryforwards of $1,232,000. The carryforwards expire at various dates beginning July 31, 2035 for federal tax purposes and July 31, 2030 for state tax purposes. The deferred tax asset relates primarily to federal and state net operating loss carryforwards. The valuation allowance is provided primarily for the net operating loss carryforwards that management has determined have not reached the “more likely than not” threshold for realization.

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, 2020 and 2019. 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 2017.

Note 16. Subsequent Events

Management has evaluated all material events and transactions that occurred from July 31, 2020 through September 24, 2020, 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.