Staying Connected

Annual Report
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**Our Mission**

To enhance the effectiveness of state boards of accountancy.

**Our Goals**

- Provide high quality, effective programs and services.
- Identify, research and analyze major current and emerging issues affecting state boards of accountancy.
- Strengthen and maintain communications with member boards to facilitate the exchange of ideas and opinions.
- Develop and foster relationships with organizations that impact the regulation of public accounting.

**Our Core Values**

- Preserve the public trust and confidence in the CPA license and credential.
- Support the licensing of individuals who demonstrate and maintain competence through education, examination, and experience requirements.
- Ensure that the integrity, objectivity, and independence of licensees are not compromised.
- Foster compliance with ethical and all professional standards.
- Promote the rights of boards of accountancy to regulate licensees in all their professional activities.
The faces of NASBA, the people who have shaped this collaborative, creative and caring organization, are the focus of this year's Annual Report. Throughout the pages of this text, where we feature the year’s activities, we will also highlight just a few of the people we work and collaborate with to provide a glimpse into the can-do faces of those who move forward what we call NASBA.

2005 was an exceptional year. We launched CPEtracking®, a particularly complex database, with a national firm to track employee CPE records against its internal firm CPE requirements, as well as state board CPE requirements. We held the inaugural meeting of the NASBA Center for the Public Trust with an impressive array of speakers who discussed the revitalization of public trust. The US Supreme Court overturned the Arthur Andersen case, the PCAOB issued new standards, and KPMG, LLP, deferred prosecution by accepting responsibility and admitting to fraud.

The computerized Uniform CPA Examination became part of the everyday landscape and focus shifted to stabilization and strengthening of processes and procedures. Concentrated efforts on the Uniform Accountancy Act (UAA) and Model Rules brought forth important proposed revisions. Committees deliberated about strengthening compliance assurance, continuing professional education, strategic initiatives and international recognition.

NASBA staff enhanced their effectiveness by implementing a formal project management structure, including the appointment of a project administrator to oversee activities and endeavors that cross department lines and require planned resource allocation.

A strong revenue stream continued from services offered through CPA Examination Services, CPEMARKET.COM, CPEtracking®, CredentialNet, National Registry of CPE Sponsors and Quality Assurance Service. NASBA's wholly-owned subsidiary, Professional Credential Services, Inc., continued to provide services to regulatory boards in fields as diverse as engineering and cosmetology.

2005 will also be sadly remembered for the devastation caused by Hurricanes Katrina and Rita. NASBA immediately reached out to offer aid to the affected boards and assisted the Louisiana Board in reestablishing its office and providing IT support, housing and office space.

The Louisiana Board lost its computer records for approximately a month, but since it was one of four boards to pilot test the US Accountancy Licensee Database (ALD), vital licensee data was immediately available through ALD. NASBA offered the CredentialNet service to the Louisiana, Mississippi and Alabama Boards, at no charge to displaced licensees, in order to facilitate their practicing in other states.

Lauren Bacall once said, “I think your whole life shows in your face and you should be proud of that.” We are proud of the many faces of NASBA and the accomplishments achieved by them.

Sincerely,

Michael D. Weatherwax, CPA
Chair

David A. Costello, CPA
President and Chief Executive Officer

Lorraine P. Sachs, CAE
Executive Vice President and Chief Operating Officer
There is a reason, that in October 2005, NASBA was named as one of the top 10 places to work in Nashville by the *Nashville Business Journal* – it is our people! Not only do we have the perfect blend of talented staff, but also an outstanding network of resources throughout all aspects of our membership – state board staff, current and former state board members and other resources – upon which we rely.

Ad astra, per aspera

David A. Costello, CPA
The Year in Review

“It is the common wonder of all men, how among so many millions of faces there should be none alike.” - Sir Thomas Browne

The diverse faces of NASBA are seen throughout the year participating in various activities such as committee meetings, conferences, Regional Meetings and the Annual Meeting.

October 2004

Four hundred and fifty-seven people attend the 97th Annual Meeting in Chicago, Illinois. Representatives from 50 jurisdictions learn about the launch of the computer-based examination, cooperation with the Public Company Accounting Oversight Board (PCAOB) and participation in the AICPA Auditing Standards Board. Keynote speaker William McDonough, Chair of the PCAOB, states, “We very much consider the state boards of accountancy our partners in constructing a safety net for public company investors and others who use and rely on financial statements.”

Principles-based auditing standards are supported by representatives of the PCAOB, GAO, ASB and IAASB, during a panel moderated by President David Costello.

The NASBA Center for the Public Trust presents its first speaker, Dr. Arthur Wyatt, who emphasizes the need for ethical leadership, “Firm leadership needs to reemphasize the importance of the public trust.”

November 2004

CPEtracking®, a system that compares an individual’s CPE record against the requirements of state boards launches for the professional staff of Deloitte & Touche, USA, LLP. Developed through a partnership with Deloitte, CPEtracking® has two main components, a rules engine, which maintains CPE requirements, and Deloitte’s Learning Management System, which contains the data relative to their professional staff. This system utilizes technology to assist 17,000 individuals with managing an integral part of their regulatory obligations.

International Qualifications Appraisal Board (IQAB) representatives sign a mutual recognition agreement with the Institute of Chartered Accountants in Ireland (ICAI). The signing occurs in Paris, where both organizations are participating in a conference of the International Federation of Accountants. The agreement opens the door for US CPAs to obtain audit rights in the Republic of Ireland.

December 2004

The SEC announces the creation of the Securities and Exchange Commission’s Advisory Committee on Smaller Public Companies, which is expected to provide recommendations as to where and how the SEC should draw lines to scale regulatory treatment for companies based on size. On December 16, the Board of Directors elects Thomas J. Sadler (WA) to fill the unexpired three-year term of Director-at-Large John Peck, who resigned due to business obligations.

January 2005

Chair Michael Weatherwax starts the New Year with a message to boards in which he states, “To ensure that we continue to have a self-regulated profession that fully protects the public, we all must adopt a regulator’s mindset as we carry out our state board responsibilities.”

The Board of Directors approves for exposure revisions to Rules 5-1 and 5-2 of the Uniform Accountancy Act Rules drafted by a task force of the NASBA Education Committee. The proposed revisions relate to required education, accreditation of programs and equating of graduate and undergraduate courses.
The Year in Review

February 2005
A survey to determine board peer review requirements is sent to state boards of accountancy from the AICPA Peer Review Board. California Governor Arnold Schwarzenegger withdraws his plan to eliminate 88 regulatory boards, including the Board of Accountancy. Representatives of the international financial regulatory community, in conjunction with IFAC, announce the establishment of the Public Interest Oversight Board to oversee IFAC’s international standard-setting activities relative to audit performance, ethics, education and audit quality control and assurance.

March 2005
More than 300 people gather in New Orleans for NASBA’s Executive Directors, Legal Counsel and CPE Conferences. Held in the same location on overlapping days, the schedule allows participants to communicate and collaborate with one another.

Board staff from 39 jurisdictions meet in New Orleans for the 23rd Annual Conference for Executive Directors. Along with discussions concerning the CBT program, issues such as peer review, best practices, the US Accountancy Licensing Database and ethics rules are addressed. Three representatives of the PCAOB explain how firm inspections are being conducted and ways in which regulators can work together.

Attendees of the 10th Annual Legal Counsel Conference, including board attorneys and inspectors from 26 states, listen to presentations on improving the exchange of enforcement information among boards, California’s experience with its reportable events law and challenges to be faced in the development of the US Accountancy Licensee Database. PCAOB representatives answer the attorneys’ questions on enforcement and firm inspections.

More than 250 people gather to attend NASBA’s 10th Annual CPE Conference. Representatives from CPA firms, continuing professional education course developers and sponsors, government agencies, academia and state boards join to hear presentations on the regulator’s role in determining CPE requirements, the GAO’s exposure draft on continuing professional education requirements and the NASBA National Registry of CPE Sponsors.

April 2005
Educators voice opposition to the proposed UAA Model Rules detailing the 150-hour education requirements for CPA candidates. The International Organization of Securities Commission’s Technical Committee and Emerging Markets Committee issues a “Survey Report on Regulation and Oversight of Auditors.” The Securities and Exchange Commission holds a six-panel daylong roundtable discussion on the implementation of the internal control reporting provisions of the Sarbanes-Oxley Act of 2002. NASBA announces plans for a Web site specifically designed to answer questions of state board staff about administration of the computer-based examination.

May 2005
Boards are asked to save a place in their August or September meeting agendas to review the forthcoming proposed revisions to the UAA following more than 50 conference calls by the joint committee. The Supreme Court unanimously reverses the conviction of Arthur Andersen, LLP. The New York State Board for Public Accountancy calls for Financial Accounting Standards Board and boards of accountancy involvement in the development of private company GAAP.
The Year in Review

June 2005
The Regional Meeting season is a hit with an overall total of 414 participants. In attendance are state board members, associates and staff, along with representatives of the PCAOB, major accounting firms and professional associations. Participants discuss compliance assurance, strategic planning, the UAA and legal landmarks.

The Eastern Regional is held June 8-10 in Baltimore. Maryland Governor Robert Ehrlich, Jr. welcomes participants and discusses the empowerment of the business community.

Western Regional participants gather in Anchorage June 22-24. Annette Kreitzer, chief of staff for Alaska Lieutenant Governor Loren Leman, greets the audience and talks about the development of oil and gas resources in the Arctic National Wildlife Refuge.

Speaking at both meetings, Chair Weatherwax tells participants he has four areas of responsibility: ceremonial, administrative, custodial, and strategic; and identifies strategic as the most important.

On the communications front, the NASBA Center for the Public Trust and the CBT Executive Directors Web sites are launched.

July 2005
At their July meeting, the Board of Directors approves the Commonwealth of the Northern Mariana Islands as NASBA’s 55th Member Board. In addition, the Board approves the Bylaws Committee’s proposed revisions to the Bylaws for distribution to member boards. The Nominating Committee announces its slate of nominees for Regional Directors and Directors-at-Large.

August 2005
On August 1, the proposed revisions to the Uniform Accountancy Act are announced and posted on NASBA’s Web site, having been approved at the July Board of Directors meeting. The revisions focus on enforcement, mobility and professional standards/ethics.

The US Accountancy Licensee Database (ALD) launches for NASBA Members on August 31, 2005 with four participating pilot states.

September 2005
The devastation from Hurricanes Katrina and Rita prompt NASBA to assist the victims through individual employee donations, volunteer efforts, temporary housing and temporary employment. NASBA offers to assist the Louisiana, Mississippi and Alabama boards with all their reciprocal licensing requests through CredentialNet, at no charge to the displaced licensees, in order to facilitate their practicing in other states.

On September 14, NASBA, AICPA and Prometric host a CBT Examination Symposium so that state boards can meet face-to-face to review the first year of the CBT program, establish a meaningful dialogue regarding current issues, and create a common vision for the program’s future.

The inaugural event for the NASBA Center for the Public Trust, A National Dialogue on Revitalizing Public Trust, is held on September 15. The conference provides a view of the activities being undertaken to focus attention on the processes and oversight being implemented to build the public’s trust and ultimately galvanize structural reforms to bolster its confidence, not only in audited financial statements, but in government and private leadership.
Administration and Finance Committee
The Administration and Finance Committee oversees and monitors the fiscal operations of the Association. The Treasurer of NASBA serves as chair of the committee. The committee met four times during the fiscal year and reviewed the financial policies, financial statements and projected operating results of both NASBA and its wholly-owned subsidiary, Professional Credential Services, Inc. The committee also reviewed insurance coverages, investments, internal controls and operating and capital budgets.

Chair: Andrew L. DuBoff (NJ)
Members: Joe C. Lawrence (AL), Donald R. Roland (GA), Diane M. Rubin (CA), E. Kent Smoll (KS), Beryl C. Stover (MT), R. Stanley Vaughan (NC), Harris W. Widmer (ND)

Awards Committee
The Awards Committee considered nominees during its July conference call and recommended Susan J. Reinardy (WI) as the recipient of the William H. Van Rensselaer Public Service Award and Asa L. Hord (KY) as the recipient of the NASBA Distinguished Service Award.

Chair: Janice B. Wilson-Marcum (CA)
Members: Stephen S. McConnel (OR), John B. Peace (AR), George G. Veily (CT)

Bylaws Committee
In July, the Bylaws Committee convened to deliberate proposed Bylaws revisions. The committee’s approved revisions were submitted to and approved by the Board of Directors for distribution to the member boards. The designated voting representatives at the 98th Annual Meeting will vote on the proposed revisions during the Annual Business Meeting.

Chair: Theodore W. Long, Jr. (OH)
Members: Doris Flores Brooks (GU), Gayle E. Mason (WV), Patrick D. McCarthy (LA), Edward H. Rudert (GA), Patricia Anne Snell (MD), George G. Veily (CT)

CBT Administration Task Force
Composed of an Executive Director from each of NASBA’s eight regions, the CBT Administration Task Force (a task force of the Examinations Committee) has continued to play an important role in the computerized CPA Examination by seeking input from the members’ colleagues. As a result of the members’ involvement, the task force’s charge was expanded to address operational issues and to survey boards regarding various examination matters, including enhancements to the Gateway System and ways to strengthen communication efforts.

Chair: Ken L. Bishop (MO)
Members: Robert N. Brooks (NC), Richard C. Carroll (KY), Daniel J. Dustin (NY), Barbara R. Porter (ID), Ronald J. Rotaru (OH), Carol Sigmann (CA), Patricia Soukup (NM)
Compliance Assurance Committee
To fulfill its charge to “explore, develop and implement opportunities for state boards to become involved in standard setting and oversight of mandatory peer review programs,” the Compliance Assurance Committee held two meetings and several conference calls during which time they began considering peer review standards from the regulator’s perspective, recommendations to the Uniform Accountancy Act, state board oversight of the peer review process and alternatives to peer review.

The committee proposed the creation of an independent oversight body, the Compliance Assurance Review Board (CARB), for the peer review process which would provide assurance as to the quality and effectiveness of programs in states requiring peer review as a condition of licensure. Committee members considered the input received at the 2005 Regional Meetings and concluded that the scope, procedures and finances of the envisioned CARB need further development and additional exposure to the member boards. Preliminary steps have been taken to form a network of states with mandatory peer review experience to help guide the CARB.

Chair: Thomas J. Sadler (WA)
Members: Billy M. Atkinson (TX), Bobbi Barnhill (SD), Jacob J. Cohen (MD), Walter C. Davenport (NC), Mark P. Harris (LA), Stephen D. Holton (VA), Robert G. Zunich (OH)

CPA Examination Review Board
The CPA Examination Review Board (ERB) completed its audit of the CBT program and presented its annual report to Regional Meeting participants in Baltimore and Anchorage. This year’s audit, the first of the computerized examination, required that each of the parties to the contract, i.e., NASBA, Prometric and the AICPA, undergo a comprehensive audit. The audit resulted in the ERB reporting that boards of accountancy could rely on the 2004 Uniform CPA Examination and the International Uniform CPA Qualification Examination (IQEX) in carrying out their licensing responsibilities. The ERB also provided a management letter with 29 recommendations for enhancing the CBT program.

Chair: Sheila M. Birch (OH), 2004-2005, Philip W. Gleason (MN), 2005-2006
Vice Chair: Asa L. Hord (KY)
Members: Barton W. Baldwin* (NC), Charles H. Calhoun**, III, Ph.D. (FL), O. Charlie Chewning, Jr (NC), Jerry A. Davis (TX), Donald E. Howard (MD), Will J. Pugh (TN), Lela D. “Kitty” Pumphrey (ID)
Psychometric Consultant: Steven M. Downing, Ph.D.
Information Technology Consultant: Michael W. Harnish

*Term began July 1, 2005
**Term ended June 30, 2005

From left to right: Dick Carroll, Jan Colbert and John Clay, all of Kentucky, enjoy Baltimore’s Inner Harbor cruise at the Eastern Regional Meeting.
CPE Advisory Committee
Members of the CPE Advisory Committee convened several times during the year to work on various matters. Through their deliberations, the committee:

- Determined and published best practice procedures for enforcement of CPE requirements,
- Published a revised set of Fields of Study,
- Continued to promote CPE non-residency agreement among state boards, and
- Continued to work on interpretation of AICPA/NASBA Statements on Standards for Continuing Professional Education (CPE) Programs.

Chair: Walter C. Davenport (NC)
Members: K. Brodie Brigman (SC), Margaret A. Cartier (IL), Thomas S. Chambers (MD), Adley E. Johnson (KS), Telford A. Loden (IA), L. Martin Miller (PA), John R. Rogers (IL), Willie B. Sims (MS), Michael W. Skinner (GA), Robert Sommer (NJ), Taling M. Taitano (GU), Richard Zacharia (NE)

Education Committee
On February 28, 2005, the Education Committee released proposed revisions to Rules 5-1 and 5-2 of the Uniform Accountancy Act's Model Rules. By the extended deadline of August 26, 2005, more than 150 comment letters had been received. The committee will present a report on next steps at the 98th Annual Meeting.

In addition, the committee participated in an IFAC ethics education research project in February and in August commented on the Proposed International Education Standard for Professional Accountants – Competence Requirements for Audit Professionals.

Chair: Kathleen J. Smith (NE)
Members: Beth A. Bialy (MI), Colleen K. Conrad (MO), Janice L. Gray (OK), Bennie L. Hadnott (NJ), Nicholas J. Mastracchio, Jr. (NY), Patrick D. McCarthy (LA), Marianne Mickelson (IA), John P. Quon (MS), Melanie G. Thompson (TX), Sharon T. Walters (KY), Cecil Wood (MO), Penelope Yunker (IL)

Ethics Committee
The Ethics Committee finalized a Code of Model Conduct and an ethics continuing professional education requirement that have been recommended to the Uniform Accountancy Act Committee as Model Rules to the UAA. In addition, a task force of the committee decided not to move forward on the development of recommended content for an ethics CPE course, based on further communications with those state boards that had initially indicated interest in the project.

During two meetings and several conference calls, the committee discussed NASBA's role in standard setting and enforcement. They concluded that more state board representation on the AICPA's Professional Ethics Executive Committee is warranted. Although NASBA cannot take over enforcement for the state boards, the committee agreed NASBA can act as a consultant, provide other support services, offer best practices, legal assistance, testimony for legislatures and amicus briefs, and keep the boards informed that the Association is there to help them.

Chair: Michael T. Daggett (AZ)
Members: J. Coalter Baker (TX), Susan M. Harris (MS), Harold D. Hein (CO), Larry E. Nunn (IN), Roger L. Reinhart (MN), Wesley E. Stille (IA), Michael Weinshel (CT), Dena G. Williams (NY), Cecil G. Wood (MO)

Coalter Baker (TX) attends a breakout session at the Western Regional Meeting in Anchorage, Alaska.
Committee Highlights

Examinations Committee
With a year of the computerized CPA Examination behind it, the committee grappled with a number of issues including imminent fee increases necessitated primarily by the unexpectedly low candidate volume. Subsequently, it endorsed a plan, which delayed the implementation of significant increases until January 2007. The committee is also studying scoring methodology in order to provide boards with a clear understanding of the scoring process. Also, before the Annual Meeting, the committee will distribute its response to the ERB Management Letter to boards of accountancy.

Chair: John E. Katzenmeyer (OH)
Members: O. Whitfield Broome (VA), John W. Clay (KY), Richard O. Hanson (NH), Gary W. Heesacker (WA), Peggy Morgando (WY), David C. Pippin (MS), Edward L. Summers (TX), Joanne Vician (IL)
Psychometric Consultant: Robert L. Brennan

Executive Directors Committee
Held in New Orleans, Louisiana, the 23rd Annual Executive Directors Conference was a success with representatives from 39 jurisdictions in attendance. Although efforts are made to provide a balance of topics on the agenda, the CPA Examination continued to be the primary focus, including a special training session to update users on the Gateway System which manages the National Candidate Database and tracks candidates through the CPA Examination process. The Conference also provided opportunities for representatives to voice their concerns and these have received considerable attention.

Chair: Daniel J. Dustin (NY)
Members: Linda L. Biek (TN), Valerie M. Elliott (AZ), Michael A. Henderson (LA), John Johnson (FL), Ronald J. Rotaru (OH), Edith Steele (OK), Viki A. Windfeldt (NV)

Legal Counsel Committee
The 2005 Legal Counsel Conference, held March 20-22 in New Orleans, was attended by attorneys from about one-half of the US boards and gave them an opportunity to question representatives of the Public Company Accounting Oversight Board (PCAOB) about the PCAOB’s firm inspection reports, as well as PCAOB/state board cooperation in enforcement efforts. In addition, legal counsel participated in a roundtable discussion of matters of mutual concern. They discussed implementing the computer-based-testing agreement, recent regulatory cases and possible impediments to the US Accountancy Licensee Database, among other topics. Throughout the year, the boards’ attorneys continued to pose general questions via e-mail to their colleagues in other states. The Legal Counsel Committee has started planning for the 2006 conference.

Chair: Janet B. Wray (GA)
Members: Christine Chute (OR), Rebecca Connors (CO), Michael R. Granen (CA), Marianne W. Greenwald (NJ), Pamela Griebel (IA), Rande K. Herrell (TX), Dennis K. Spillane (NY), Edward F. Walsh (MO)
NASBA/AICPA International Qualifications Appraisal Board
The NASBA/AICPA International Qualifications Appraisal Board (IQAB) continued to evaluate applications for mutual recognition agreements submitted by non-US accounting bodies. Most recently, a task force began to study the application from the Hong Kong Institute of CPAs. Agreements presently exist and continue to be monitored for professional bodies in Australia, Canada, Ireland and Mexico.

Recognizing that the 150-hour education standard is unique to the United States, IQAB has been considering a formalized scoring system to assist them in determining substantial equivalency with non-US designations. They have also reassessed the International Uniform CPA Qualification Examination (IQEX), in light of the computer-based Uniform CPA Examination, and offered direction to the AICPA’s Board of Examiners for the future of the IQEX.

Chair: Barton W. Baldwin (NC)
Members: Gerald W. Burns (OR), Kay C. Carnes (WA), Ruben A. Davila (CA), Nathan T. Garrett (NC), Leonard R. Sanchez (NM), Richard D. Thorsen (MN), William Treacy (TX)
IFAC Liaison: Charles H. Calhoun, III (FL)

Nominating Committee
The committee met in March to make its recommendation for Vice Chair and in June to select its nominees for Directors-at-Large and Regional Directors. Those recommended for Vice Chair by state boards completed a questionnaire to assist the committee in its deliberations and final recommendations to NASBA’s membership. Committee members attended June Regional Meetings to familiarize themselves with nominees for Board positions. In accordance with the Bylaws, the committee submitted its report to the Chair in July.

Chair: David A. Vaudt (IA)
Members: John G.D. Carden (AL), Alicia J. Foster (MD), Kenneth J. Hull (IL), Nina B. Kavich (NE), David L. Koerwitz (WY), Nicholas J. Mastracchio, Jr. (NY), Leonard R. Sanchez (NM), Laurie J. Tish (WA)

Past Chair Advisory Council
Plans have been initiated by the former NASBA chairs who make up this group to develop a history of NASBA in recognition of the 100th anniversary of the association in 2007. An accounting historian has been engaged for the assignment and will be reviewing NASBA documents and conducting interviews with current and previous NASBA leadership. In their meeting prior to the 2004 Annual Meeting, the members suggested ways to generate more involvement in NASBA by state board representatives.

Chair: David A. Vaudt (IA)
Members: Barton W. Baldwin (NC), Sarah G. Blake (AZ), Robert L. Block (WA), Milton Brown (NJ), Thomas F. Cardegna (MD), K. Michael Conaway (TX), Albert J. Derbes, III (LA), Robert C. Ellyson (FL), Welling W. Fruehauf (PA), Nathan T. Garrett (NC), John M. Greene (SC), Thomas Ito (CA), Noel P. Kirch (OK), Andrew P. Marincovich (CA), John B. Peace (AR), Ronnie Rudd (TX), Jerome A. Schine (FL), Wilbert H. Schwotzer (GA), Jerome P. Solomon (MA), Dennis P. Spackman (UT), Wilbur H. Stevens (CA), Sandra A. Suran (OR), Sam Yellen (CA)

Ted Long (OH) considers comments at the NASBA Center for the Public Trust inaugural event in Washington, DC.
Professional and Regulatory Response Committee

Exposure drafts from regulatory and professional bodies were monitored throughout the year by the Professional and Regulatory Response Committee and comments were developed on those issues of direct concern to the work of the state boards of accountancy. Responses were sent to the Public Company Accounting Oversight Board, Financial Accounting Standards Board, International Federation of Accountants and the American Institute of CPAs.

The committee conducted all of its meetings via conference call. Besides considering exposure drafts, they are also now considering the issue of who are the appropriate standard setters for audits of non-SEC registered companies.

Chair: Richard Isserman (NY)
Members: Karen J. Bindl (WI), Alan J. Bronstein (VI), Philip E. Doty (CO), Richard D. Johnson (IA), Lynda Lieberman (MO), Herbert L. Lipman (NJ), Leslie A. Mostow (MD), Ray G. Stephens (OH), Robert H. Temkin (MA), Jorge Torres Valles (PR), Rosalina E. Wirkkunen (GU)

Relations with Member Boards Committee

Continuing to develop focus questions that assist NASBA’s committee work, the Regional Directors (who compose the Relations with Member Boards Committee) have been very successful in gathering quarterly information from the member boards. They have also communicated regularly with the boards about matters of mutual concern and encouraged board representatives to attend NASBA meetings and participate in NASBA committees.

At the 2005 Regional Meetings and New Board Member Orientation Sessions, chaired by the Regional Directors, the time allocated for board members to meet with their Regional Directors was expanded.

Chairs: Sandra R. Wilson (AK)
Members: Ellis M. Dunkum (VA), Gaylen R. Hansen (CO), Mark P. Harris (LA), Richard Isserman (NY), Theodore W. Long, Jr. (OH), Robert A. Pearson (MO), Donald R. Roland (GA)

From left to right: Wes Johnson (MD), Diane Rubin (CA), Michael Weatherwax (CO), Lorraine Sachs (NY) and David Costello (TN) enjoy a slight breeze during the Baltimore dinner cruise.
Strategic Initiatives Committee

The Strategic Initiatives Committee met in person and numerous times via conference call to discuss emerging and significant issues impacting state boards. During its discussions, the committee formulated three subcommittees to assess the areas of regulation, legislation and best practices as they relate to state boards.

At this year's Regional Meetings, the committee received much needed input and direction from the membership to continue and expand its areas of investigation. As a result, the committee presented a number of recommendations including a more proactive involvement in the areas of examination and regulation, recommendations for communication policies, procedures and programs, development of a best practices model for state boards, a special emphasis on the important contributions public members have on state boards and the establishment of a legislation committee to provide guidance and assistance to state boards. In the year 2005-2006, the committee will continue to consider these areas and to investigate and make recommendations on other emerging issues affecting state boards of accountancy.

Chair: Wesley P. Johnson (MD)
Members: Kent Bailey (OR), Sally Flowers (CA), Harold Dean Graf (NE), Robert L. Gray (NY), Gaylen R. Hansen (CO), J. Lamar Harris (AL), M.C. “Princy” Harrison (MS), Harry O. Parsons (NV), Mary J. Reimer (OH)

Substantial Equivalency Task Force

The Substantial Equivalency Task Force was established in 2005 with a mission to improve the protection of the public by enhancing the mobility of CPAs from state to state through the adoption of legislation implementing Section 23 of the UAA in various jurisdictions. The task force held two meetings and several conference calls throughout the year during which the members reviewed the status of substantial equivalency statutes in each jurisdiction, discussed what immediate action was necessary to make a difference in the 2005 legislative session, and developed action plans for several states.

In addition, some members of the task force made presentations to constituent groups in Alaska, Hawaii, and Montana. During 2005, Alabama, Maryland, Montana, New Mexico and Wyoming each passed legislation or rules implementing the principles of Section 23 of the UAA. The task force has identified target states for possible legislative action in this area during 2006 and 2007 and is developing action plans with respect to each of those jurisdictions.

Chair: Carlos E. Johnson (OK)
Members: J. Coalter Baker (TX), Ken L. Bishop (MO), Gerald W. Burns (OR), Andrew L. DuBoff (NJ), Renata M. Sos (CA), R. Stanley Vaughan (NC)
Uniform Accountancy Act Committee
National Qualification Appraisal Service

The Uniform Accountancy Act Committee and its task forces met three times and held more than 50 conference calls to develop appropriate revisions for the Uniform Accountancy Act. The proposed changes were released for comment to the member boards, professional societies and other interested parties on August 1, with comments due back by October 3. Committee members and their AICPA counterparts worked in task forces focusing on sections of the UAA relative to: (1) mobility, (2) ethics/standards, and (3) enforcement. Comments will be considered at the joint AICPA/NASBA UAA Committee meeting on October 7.

Functioning in their role as the NASBA National Qualification Appraisal Service Board, members recognized the change in Wyoming’s education requirement making those licensees with 150 hours of education substantially equivalent. The UAA Committee is awaiting the Education Committee’s recommendations on their proposed model rules.

Chair: Samuel K. Cotterell (ID)
Members: Marcela E. Donadio (TX), Ellis M. Dunkum (VA), Gary L. Fish (IL), Michael R. Granen (CA), J. Dwight Hadley (NY), Thomas J. Mulligan (OH), Robert A. Pearson (MO), Wendy S. Perez (CA), Barbara R. Porter (ID), Laurie J. Tish (WA)

US Accountancy Licensee Database Task Force

The task force worked diligently on both technical issues and design to create a central database that enhances the ability of state boards to efficiently manage their licensing and regulatory processes, thereby improving public protection. On August 31, 2005, the US Accountancy Licensee Database (ALD) launched with licensee information from the states of Louisiana, Missouri, Tennessee and Texas. Since the initial launch, additional states have shown great interest in joining the project.

Chair: Daniel J. Dustin (NY)
Members: Linda L. Biek (TN), Ken L. Bishop (MO), Michael A. Henderson (LA), Leveta Ray (AR), Ronald J. Rotaru (OH), Edith Steele (OK), William Treacy (TX)

From left to right: Laura Welles and Christy Morse, both of Alaska, participate in the NASBA Western Regional Meeting in Anchorage, Alaska.
CPA Examination Services (CPAES)
In its 24th year of operation, CPA Examination Services successfully served more than 60,000 candidates and 31 boards of accountancy. During 2005, CPAES processed applications for approximately 60 percent of the total national CPA candidate population.

CPAES continued to focus on streamlining its services to boards of accountancy in this second year of the computer-based Uniform CPA Examination. A new “Candidate Care Department” was created to better serve both candidates and boards. The updated CPAES computer systems are working well and provided the boards the reports they received in the past, along with new customized reports.

CPAES, under an agreement with the Guam Board of Accountancy, operates the Guam Computer Testing Center. That testing center is one of the largest in the Prometric testing network, and tested more CPA candidates in the first year of the computerized examination than any other single testing center in the United States.

CPEtracking®
Introduced in 2005, CPEtracking® provides a comprehensive online compliance management solution for state boards of accountancy, CPA firms, and licensed professionals. State boards can reap the benefits of automated CPE auditing capabilities and customized CPE compliance reports for state CPA populations. Through its flexible systems architecture, CPEtracking® can integrate with a firm’s existing programs and enhance the reporting experience for both firm administrators and professionals. Professionals can enter course details and at the click of a button receive an at-a-glance view of compliance by jurisdiction and reporting period. CPEtracking® will transform the way CPE is measured, tracked, and reported.

CredentialNet
CredentialNet continued to provide services to CPAs who engage in interstate practice. Through CredentialNet, NASBA evaluates substantial equivalency license applications for the following state boards: Arkansas, Kansas, New Mexico, North Dakota, Oklahoma, Oregon, and Tennessee. Additionally, CredentialNet evaluates initial and renewal applications for Intent to Practice for the Tennessee State Board of Accountancy and credentials to accompany a reciprocal application for the New York State Board for Public Accountancy.

CPEMARKET.COM
CPEMARKET.COM, an online continuing education resource for CPAs, CFPs, attorneys and NASD registered representatives, listed a total of 150 sponsors and 3,902 courses in 2005. The site allows CPAs, and other professionals to search for CPE courses, access information on state CPE requirements and locate sponsors approved by the National Registry of CPE Sponsors (Registry) and Quality Assurance Service (QAS) programs free of charge.
International Uniform CPA Qualification Examination (IQEX)
CPA Examination Services administered the International Uniform CPA Qualification Examination (IQEX) to 230 candidates during a three and one-half week testing window in November 2004 at Prometric testing centers in the United States and Canada. For the first time, Mexican Contadores Públicos Certificados took the examination, along with Canadian Chartered Accountants, Australian Chartered Accountants, and Australian Certified Practising Accountants. The examination content is being reviewed by the International Qualifications Appraisal Board (IQAB) to ensure that the IQEX continues to facilitate the CPA qualification process for those accounting professionals from other countries whose professional bodies have entered into mutual recognition agreements with the US accounting profession.

Licensure Services
NASBA continued to process initial, reciprocal and firm applications on behalf of the Colorado Board of Accountancy. For the 2004-2005 period, NASBA evaluated 893 applications.

National Registry of CPE Sponsors (Registry)
Forty-two state boards have indicated that they accept CPE credits from Registry sponsors, and 23 state boards have adopted the new Standards. Efforts to encourage consistency in the development of CPE programs continue. As of July 2005, more than 1,300 sponsors were listed on the Registry.

Professional Credential Services, Inc. (PCS)
NASBA’s wholly-owned subsidiary, Professional Credential Services, offers a variety of services for testing, licensing and certifying professionals. PCS now serves regulatory agencies in more than 40 professions, including architecture, athletic training, auctioneering, cosmetology, engineering, fire protection, funeral directing, geology, healthcare philanthropy, land surveying, law enforcement, lead abatement, nursing, occupational therapy, osteopathic medicine, parking facility management, pharmacy, physical therapy, podiatric radiology, professional planning, psychology, veterinary technicians and wastewater treatment operation.

In its seven years of operation, PCS has built a strong reputation with its expertise in examination administration services, building on NASBA’s CPA Examination Services’ experience in serving boards of accountancy.

Quality Assurance Service (QAS)
As of July 2005, the QAS program listed 31 sponsors. Four state boards, Florida, Minnesota, Oregon and Tennessee, require their licensees to obtain self-study CPE from QAS sponsors. A total of 39 state boards have indicated that they accept CPE credits from QAS sponsors.
**2004 - 2005 Board of Directors**

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- Michael D. Weatherwax, CPA  
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- Daniel J. Dustin, CPA

NASBA Board of Directors
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Chief Executive Officer
Lorraine P. Sachs, CAE
Executive Vice President and
Chief Operating Officer
Robert E. “Gene” Brosky, CPA
Chief Financial Officer
Joseph T. Cote, CPA
President, PCS and
Director, CPA Examination Operations

From left to right: Milton Brown (NJ) and David and Sally Costello (TN) enjoy comments during the NASBA Center for the Public Trust inaugural event in Washington, D.C.
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Director, Legal Services

Bridget Candler
Manager, Compliance Services

Dean Carroll
Manager, Information Systems

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Manager, PCS Examination Operations

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Director, CPA Examination Operations and National Candidate Database

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Project Administrator

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Manager, Web Applications

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Claus H. Lang
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José A. Manzon, IV
Manager, Guam Computer Testing Center

Meritta M. Phillips
Manager, Accounts Payable

Rebecca Rodriguez
Manager of CPEtracking®

Anne E. Russell
Manager, PCS Site Administration

James O. “Butch” Thomas
Manager, Development Systems

Francine A. Tilley
Manager, PCS Cosmetology

Penny A. Vernon
Manager, Candidate Care

Troy A. Walker, CPA
Controller, PCS

Jan Winslett
Manager, Quality Assurance
**NASBA Center for the Public Trust**

**Our Mission**
To engender and foster confidence and trust in American corporations and institutions and the professions that serve them.

**Our Goals**
- Affirm and encourage what’s right.
- Showcase best practices.
- Provide forums for ethics education.
- Promote a positive perspective.

The NASBA Center for the Public Trust (CPT) was established to address the issue of ethics and ethical behavior in business, education, public policy and society. The focus of the CPT is to showcase and promote the positive perspective. Ethics centers have been a part of the academic and business landscape for many years. The CPT stands out because a primary objective is to “tell the good news” by focusing attention on the organizations and individuals who employ best practices and endeavor to elevate the ethical threshold in the business world.

**2005 Conference**
A spectacular inaugural event, “A National Dialogue on Revitalizing Public Trust,” was held on September 15, in Washington, DC. More than 125 attendees listened to presentations on what is being done in Congress, in state government, in business, in the legal, accounting and other professions to revitalize the public trust. Widespread abuses which led to corporate scandals and declining public trust in companies, their leaders and America’s capital markets are only part of the story. Speakers and highlights included:

- US Congressman K. Michael Conaway addressed ethics and provided an insider’s view on how public trust is being revitalized in the halls of the US Congress.
- New Mexico Governor Bill Richardson focused on state initiatives for promoting public trust and providing ethical leadership.
- William J. McDonough, Chair of the PCAOB, provided insights into this newest paradigm of regulation.
- The dynamic Linda Galindo, Founder and President of Galindo Consulting, shared her vision to develop responsibility and accountability for each individual so the goals of any organization can be reached effectively.
- Author and businessman Scott Price recounted the odyssey he took with his son, Pat, to search for goodwill. They gave $10 to each person and asked him or her to use the money to help another person in any way and asked only for their stories in return. The stories have been compiled into the soon to be published book, *Looking for Goodwill.*

Left to Right: Andy DuBoff (NJ), Leslie Mostow (MD) and Hal Schultz (CA) attend the CPT inaugural event.
Trust Society
The CPT acquired its first corporate sponsor, SunTrust Bank of Nashville, through its Trust Society program. The Trust Society is composed of leading patrons within professions such as banking, health care, law and accounting. Only one organization within each profession is awarded membership in the Trust Society. The CPT was honored when SunTrust Bank of Nashville become not only the Trust Society member from banking, but also the first member of the Trust Society.

Corporations and organizations invited to join the Trust Society are known for their dedication to ethical business practices and following high standards of social responsibility for performance and leadership. SunTrust Banks, Inc., headquartered in Atlanta, Georgia, is one of the nation's largest commercial banking organizations. As of December 31, 2004, SunTrust had total assets of $159.1 billion and total deposits of $103.4 billion.

The company operates an extensive distribution network primarily in Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia, and also serves customers in selected markets nationally. Its primary businesses include deposit, credit, trust and investment services. Through various subsidiaries, the company provides credit cards, mortgage banking, insurance, brokerage, and capital markets services.

Founding Members
In 2005, the CPT introduced a Founding Members program. This program provides a unique opportunity for individuals to support the important work of the CPT. The National Society of Accountants (NSA) stepped forth with an organization-wide effort to support the CPT and became the first accounting association to obtain Founding Member status. Moreover, the NSA actively encouraged its individual members to also become donors.

A Look to the Future
The most important goal to be realized in 2006 will be the establishment of an awards program to recognize individuals and corporations that follow high standards of social responsibility for performance and leadership. A spring half-day conference is being developed with Pepperdine University, in Malibu, California.
NASBA Center for the Public Trust

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Nashville, TN
mcaldwell@nasba.org

Malia Jackson
Administrative Assistant
Nashville, TN
mjackson@nasba.org

NASBA Center for the Public Trust Board of Directors
Seated from left to right: S. Reinardy, L. Axisa, M. Caldwell. Standing from left to right: M. Harris, Q. Booker, D. Costello, L. Bridgesmith, N. Allen, M. Brown, M. Bryant, L. Sanchez
National Association of State Boards of Accountancy, Inc. and Related Organizations

Consolidated Financial Statements

July 31, 2005 and 2004
September 27, 2005

REPORT OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
AND OF CHIEF FINANCIAL OFFICER

We, David A. Costello, CPA, President and Chief Executive Officer and Robert E. Brosky, CPA, 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 Related Organizations at and for the years ended July 31, 2005 and 2004, including the Notes thereto, as reported on by NASBA’s independent auditors, Lattimore, Black, Morgan & Cain, P.C., 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 Chairman of the Audit Committee of NASBA.

David A. Costello, CPA
President and Chief Executive Officer

Robert E. Brosky, CPA
Chief Financial Officer
September 27, 2005

REPORT OF MANAGEMENT

The management of the National Association of State Boards of Accountancy, Inc. and Related Organizations (the “Association”) 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 are considered to 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 Association are free of any conflicts of interest.

David A. Costello, CPA  
President and Chief Executive Officer

Lorraine P. Sachs, CAE  
Executive Vice President and Chief Operating Officer

Robert E. Brosky, CPA  
Chief Financial Officer

Michael R. Bryant, CPA  
Director of Accounting and Financial Reporting
Fiscal 2005 was the first full year of CPA testing in the computerized examination environment. During this year, NASBA devoted substantial resources to improving the experience candidates and boards of accountancy encounter in the new environment. In addition, ethics and regulation in the profession continued to be key areas of focus after the high-profile business reporting problems of recent years. In October of 2004, the NASBA Center for the Public Trust was formed with its stated mission being to engender and foster confidence and trust in American corporations and institutions and the professions that serve them.

NASBA continues to invest resources in new programs that serve to enhance the effectiveness of boards of accountancy. The catastrophic consequences that Hurricane Katrina brought to the Gulf Coast served to illustrate the necessity of planning for disaster recovery. Prior to the hurricane, the Louisiana State Board of Accountancy had been involved in a pilot program for NASBA’s Accountancy Licensing Database. Fortunately, this proved to be invaluable to preserving board records that were lost and would have been difficult to access from back-up data.

Other programs of NASBA address Continuing Professional Education (CPE) compliance for licensed CPAs. The majority of revenue is produced by quality control activities for which CPE sponsors pay fees. Beginning in fiscal 2003, NASBA began developing CPEtracking®, a software product to serve the needs of firms and individuals in complying with the myriad state requirements for CPE. Phase 1 of the product was successfully implemented in fiscal 2004 with one of the big four accounting firms and is on track for utilization by additional firms.

In July of 2005, the Commonwealth of the Northern Mariana Islands applied for and received membership in NASBA as the 55th board of accountancy.

Professional Credential Services, Inc. (PCS), a wholly-owned for-profit subsidiary of NASBA, continues to service non-accounting-related entities in test development, examination administration, and licensing activities.

Operating revenue on a consolidated basis was $17.0 million in 2005 compared to $19.8 in 2004, a decrease of $2.8 million or 14.1%. However, included in 2004 revenues were fees collected from candidates for the final pencil-and-paper-based CPA examination which include amounts ultimately paid to the AICPA for grading services. Such fees were collected only from candidates in states serviced by NASBA’s CPA Examination Services group under contracts with those state boards. With the inception of the computer-based-examination in April of 2004, revenue from candidate fees does not include amounts ultimately paid to the AICPA for grading services. This is because, under the terms of the CBT agreement, NASBA now acts as an agent under an escrow agreement in collecting this portion of candidate fees from candidates in all states. This operational change drives the accounting for these fees in the computerized environment to be different from the manner in which they were appropriately recorded in the paper-and-pencil based environment. Therefore, operating revenue for 2004, adjusted to exclude fees collected which were ultimately paid for CPA examination grading services, would be $16.0 million.

Consequently, on a comparative basis, operating revenue increased 6.3% to $17.0 million in 2005.
The following table compares operating revenue by program, adjusted for the aforementioned grading fees, for 2005 and 2004:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2005</th>
<th>2004</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination related</td>
<td>$15.5</td>
<td>$14.1</td>
<td>9.9%</td>
</tr>
<tr>
<td>Other programs</td>
<td>1.2</td>
<td>1.6</td>
<td>-25.0%</td>
</tr>
<tr>
<td>Member dues and other revenue</td>
<td>0.3</td>
<td>0.3</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$17.0</td>
<td>$16.0</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

The following table compares the components of Examination related program revenues, adjusted for the aforementioned grading fees, for 2005 and 2004:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2005</th>
<th>2004</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPA Examination Services</td>
<td>$7.1</td>
<td>$8.5</td>
<td>-16.5%</td>
</tr>
<tr>
<td>PCS</td>
<td>5.0</td>
<td>3.7</td>
<td>35.1%</td>
</tr>
<tr>
<td>CBT Contract Services</td>
<td>2.3</td>
<td>1.0</td>
<td>130.0%</td>
</tr>
<tr>
<td>Guam Test Center</td>
<td>0.7</td>
<td>0.3</td>
<td>133.3%</td>
</tr>
<tr>
<td>Other</td>
<td>0.4</td>
<td>0.6</td>
<td>-33.3%</td>
</tr>
<tr>
<td>Total</td>
<td>$15.5</td>
<td>$14.1</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

The change to the computerized examination in mid-2004 is the most significant reason for the decline in CPA Examination Services revenue. Under the computerized examination, first-time candidates are allowed to apply for fewer than all four sections of the examination, which was not typically the case in the paper-and-pencil based format.

The increase in PCS revenue results primarily from new contracts with state cosmetology boards to administer examinations.

The increase in CBT Contract Services revenue, as well as Guam Computer Testing Center revenue, is due to twelve months of computerized examination related services in 2005 versus six months in 2004.

In 2004, other programs included revenue for the first CPEtracking® software implementation. There were no new customer implementations in 2005 which accounts for the decline of 25.0%.

In addition to operating revenues, NASBA had income resulting from a settlement agreement with a CBT contract partner to waive repayment of $0.7 million owed to the partner by NASBA. The settlement stemmed from an outstanding trademark licensing issue of the partner and the acquirer of certain of the partner’s assets which resulted in an incomplete divestiture under the terms of the CBT contract.
Operating expenses on a consolidated basis were $17.1 million in 2005 compared to $20.0 million in 2004, a decrease of $2.9 million. However, included in 2004 expenses are amounts paid to the AICPA for grading services for the final pencil-and-paper-based CPA examination. In 2005, AICPA grading services are not a component of operating expenses as those amounts are paid from escrowed funds as discussed previously. Therefore, operating expenses for 2004, adjusted to exclude amounts paid for CPA examination grading services, would be $16.2 million. Consequently, on a comparative basis, operating expenses increased 5.6% to $17.1 million in 2005.

The following table compares operating expenses by program, adjusted for the aforementioned grading fees, for 2005 and 2004:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2005</th>
<th>2004</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination related</td>
<td>$14.9</td>
<td>$14.4</td>
<td>3.5%</td>
</tr>
<tr>
<td>Other programs</td>
<td>1.1</td>
<td>0.8</td>
<td>37.5%</td>
</tr>
<tr>
<td>Communications</td>
<td>1.1</td>
<td>1.0</td>
<td>10.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$17.1</td>
<td>$16.2</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

The components of the 3.5% Examination related program expenses increase were primarily the net effect of: (1) the elimination of pencil-and-paper-based CPA examination site cost expenses in 2005; (2) increases in computerized examination related costs in 2005 for personnel and a full year of software development cost amortization; and (3) increases in PCS examination administration costs for new state cosmetology board contracts. The increase in expenses for Other programs is attributable primarily to the commitment of additional personnel to the development and enhancement of CPEtracking® software capabilities. The increase in Communications operating expenses is due primarily to additional professional fees related to developing new services such as the Accountancy Licensee Database.

Significant expense variations from 2004 to 2005 by caption (adjusted for grading service expenses as discussed previously) are presented in the following table:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2005</th>
<th>2004</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination program costs</td>
<td>3.1</td>
<td>3.7</td>
<td>-16.2%</td>
</tr>
<tr>
<td>Salaries and related costs</td>
<td>8.5</td>
<td>7.2</td>
<td>18.1%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>0.9</td>
<td>0.6</td>
<td>50.0%</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>1.1</td>
<td>1.4</td>
<td>-21.4%</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>0.9</td>
<td>0.6</td>
<td>50.0%</td>
</tr>
<tr>
<td>Other captions</td>
<td>2.6</td>
<td>2.7</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Total</td>
<td>17.1</td>
<td>16.2</td>
<td>5.6%</td>
</tr>
</tbody>
</table>
NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.
AND RELATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The decline in examination program costs and the increase in salaries and related costs are due primarily to the transition to the computerized CPA examination as previously discussed. The increase in Occupancy expense from 2004 to 2005 is the result of the reduction of expense in 2004 related to the elimination of a deferred rent credit as discussed in Note 8 of the financial statements. Travel and meeting related expenses declined from the 2004 level due primarily to the additional annual meeting expenses incurred that year to provide additional support for some attendees as well as a decline in national candidate database development meeting and travel related expenses. Depreciation and amortization increased due to a full year of software development cost amortization in 2005 as compared to five months in 2004.

Cash provided by operating activities was $2.2 million in 2005 as compared to cash used by operating activities of $2.5 million in 2004. The cash used in operating activities in 2004 was due primarily to reductions of grading fees payable to the AICPA for the final pencil and paper CPA examination and to the elimination of deferred CPA examination fee revenues which are no longer material in the computerized examination environment.

Cash related to investing activities operated essentially at breakeven in 2005, whereas in 2004, cash provided by investing activities was 2.6 million. The cash provided from investing activities in 2004 related to the liquidation of short-term investments which had been accumulated for payment of the final pencil and paper examination AICPA grading services. This amount was offset by investing activities of $1.2 million of capitalized software costs in 2004. Financing activities utilized $0.1 million in cash in both years for principal payments on capital leases. As a result of these operating, investing and financing activities, net cash increased $2.1 million in 2005 as compared to no change in cash in 2004.

At July 31, 2005, NASBA and its related organizations have a strong financial position with adequate liquidity to meet the needs of its operations and the development of new projects and services. The CBT agreement provides for NASBA to breakeven on development, maintenance, and operation of its CBT activities. In 2005, $0.8 million of net expenses are included in the statement of activities which will be recovered from future candidate fees. In 2004, the amount included was $1.5 million. At July 31, 2005, NASBA has cumulative net expenses of $3.8 million which will be recovered through future candidate fees that have been expensed over the previous five fiscal years.

Unrestricted net assets increased $1.5 million in 2005 and $0.5 million in 2004. Serving the member boards of accountancy, and correspondingly the public trust, requires an adequate amount of net assets. NASBA has weathered the challenges of the CBT transition and has endeavored to serve the public in new and meaningful ways with ongoing projects like the Accountancy Licensee Database and CPEtracking®. NASBA has entered a new era of improved communication with boards and is focused on creating better tools for boards to fulfill their responsibilities. The key, as always, is people. Our people are committed to serving the boards, the examination candidates, the licensees and the public trust through our programs, as well as through the sound fiscal management of our organization.
September 27, 2005

REPORT OF AUDIT COMMITTEE

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

The Audit Committee of the National Association of State Boards of Accountancy, Inc. and its Related Organizations (the “Association”) for the year ended July 31, 2005, was charged by the Board of Directors with the responsibility for oversight of the annual independent audit of the Association’s consolidated financial statements and recommending to the Board of Directors the audit firm to undertake the annual audit for the following year.

In connection with the discharge of its responsibility,

• Prior to commencement of the year-end audit work, the Audit Committee, along with members of management, met via teleconference with the independent auditors to discuss (1) the overall scope and specific plans for the conduct of the audit and (2) the Association’s accounting, reporting and internal control processes and procedures, including the safeguarding of assets and other resources against unauthorized acquisition, use or disposition;

• After the completion of the audit, the Committee, along with members of senior management, met with the Association’s independent auditors to discuss the results of the audit and, without senior management present, the Committee had an opportunity to discuss privately with the independent auditors any matters of concern of the independent auditors;

• The Committee met privately with the Association’s management to discuss and consider the credentials and performance of the independent auditors and decided on a recommendation to the Board of Directors of an independent audit firm for the year ending July 31, 2006.

Based on the above, the Committee believes that the annual independent audit was properly completed, and that management has maintained adequate systems and controls and followed the appropriate procedures related to the Association’s financial accounting, reporting and safeguarding of assets for the year ended July 31, 2005.

Respectfully submitted,

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

Billy M. Atkinson, Chair, on behalf of the Members of the Committee as follows:
Welling W. Fruehauf
James W. Goad
David P. Kassouf
Carlos E. Johnson
INDEPENDENT AUDITORS’ REPORT

To the Board of Directors and Members

National Association of State Boards of Accountancy, Inc.

We have audited the accompanying consolidated statements of financial position of the National Association of State Boards of Accountancy, Inc. and Related Organizations (the “Association”) as of July 31, 2005 and 2004, and the related consolidated statements of activities, program expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association’s management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Association of State Boards of Accountancy, Inc. and Related Organizations as of July 31, 2005 and 2004, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Brentwood, Tennessee

September 9, 2005

Lattimore, Black, Morgan & Cain, P.C.
# Consolidated Statements of Activities

For Years Ended July 31,

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination related</td>
<td>$15,520,741</td>
<td>$17,901,999</td>
</tr>
<tr>
<td>Other programs</td>
<td>1,207,833</td>
<td>1,592,960</td>
</tr>
<tr>
<td>Member dues and other revenue</td>
<td>301,539</td>
<td>276,932</td>
</tr>
<tr>
<td><strong>Total program revenues</strong></td>
<td><strong>17,030,113</strong></td>
<td><strong>19,771,891</strong></td>
</tr>
<tr>
<td><strong>Program Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination related</td>
<td>14,944,631</td>
<td>18,167,389</td>
</tr>
<tr>
<td>Other programs</td>
<td>1,116,321</td>
<td>817,426</td>
</tr>
<tr>
<td>Communications</td>
<td>1,085,876</td>
<td>965,999</td>
</tr>
<tr>
<td><strong>Total program expenses</strong></td>
<td><strong>17,146,826</strong></td>
<td><strong>19,950,814</strong></td>
</tr>
<tr>
<td><strong>Program Expenses in Excess of Program Revenues</strong></td>
<td>(116,713)</td>
<td>(178,923)</td>
</tr>
<tr>
<td><strong>Income from Resolution of Examination Contract Issue</strong></td>
<td>714,280</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>Increase (Decrease) in Unrestricted Net Assets Before Investment Income and Income Taxes</strong></td>
<td>597,567</td>
<td>(178,923)</td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td>1,029,860</td>
<td>721,413</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets Before Income Taxes</strong></td>
<td>1,627,427</td>
<td>542,490</td>
</tr>
<tr>
<td><strong>Income Tax Expense</strong></td>
<td>84,200</td>
<td>55,500</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets</strong></td>
<td>1,543,227</td>
<td>486,990</td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets Beginning of year</strong></td>
<td>7,125,061</td>
<td>6,638,071</td>
</tr>
<tr>
<td><strong>End of year</strong></td>
<td>$8,668,288</td>
<td>$7,125,061</td>
</tr>
</tbody>
</table>
## CONSOLIDATED STATEMENTS OF PROGRAM EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>Examination related</th>
<th>Other programs</th>
<th>Communications</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year Ended July 31, 2005</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination program costs</td>
<td>$3,056,011</td>
<td>$-0-</td>
<td>$-0-</td>
<td>$3,056,011</td>
</tr>
<tr>
<td>Salaries and related costs</td>
<td>7,773,974</td>
<td>629,098</td>
<td>109,437</td>
<td>8,512,509</td>
</tr>
<tr>
<td>Occupancy</td>
<td>769,945</td>
<td>89,722</td>
<td>23,361</td>
<td>883,028</td>
</tr>
<tr>
<td>Professional fees</td>
<td>740,790</td>
<td>161,886</td>
<td>371,808</td>
<td>1,274,484</td>
</tr>
<tr>
<td>Printing and postage</td>
<td>257,348</td>
<td>18,657</td>
<td>96,954</td>
<td>372,959</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>622,340</td>
<td>99,314</td>
<td>438,688</td>
<td>1,160,342</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>863,247</td>
<td>27,624</td>
<td>11,064</td>
<td>901,451</td>
</tr>
<tr>
<td>Telephone</td>
<td>123,241</td>
<td>5,393</td>
<td>11,064</td>
<td>139,698</td>
</tr>
<tr>
<td>Equipment rentals</td>
<td>282,770</td>
<td>27,854</td>
<td>3,507</td>
<td>314,131</td>
</tr>
<tr>
<td>Supplies</td>
<td>88,299</td>
<td>8,442</td>
<td>5,769</td>
<td>102,510</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>366,666</td>
<td>48,331</td>
<td>14,706</td>
<td>429,703</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$14,944,631</strong></td>
<td><strong>$1,116,321</strong></td>
<td><strong>$1,085,874</strong></td>
<td><strong>17,146,826</strong></td>
</tr>
</tbody>
</table>

| **Year Ended July 31, 2004** |                     |                |                |            |
| Examination program costs | $7,469,504          | $-0-           | $-0-           | $7,469,504 |
| Salaries and related costs | 6,786,343           | 360,040        | 71,723         | 7,218,106  |
| Occupancy | 509,026          | 52,311         | 5,359          | 566,696    |
| Professional fees | 964,557           | 176,949        | 158,528        | 1,300,034  |
| Printing and postage | 306,802           | 22,642         | 74,072         | 403,516    |
| Travel and meetings | 740,470           | 99,877         | 604,936        | 1,445,283  |
| Depreciation and amortization | 572,923          | 30,200         | 11,473         | 614,596    |
| Telephone | 167,112          | 8,936          | 17,990         | 194,038    |
| Equipment rentals | 136,855           | 26,640         | 3,508          | 167,003    |
| Supplies | 85,574           | 6,424          | 9,607          | 101,605    |
| Miscellaneous | 428,223          | 33,407         | 8,803          | 470,433    |
| **Totals** | **$18,167,389** | **$817,426**   | **$965,999**   | **19,950,814** |

See Accompanying Notes to Consolidated Financial Statements
### NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.
### AND RELATED ORGANIZATIONS

#### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**July 31,**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$3,654,158</td>
<td>$1,584,160</td>
</tr>
<tr>
<td>Receivables</td>
<td>815,113</td>
<td>580,536</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>252,558</td>
<td>231,029</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>16,500</td>
<td>15,700</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$4,738,329</td>
<td>$2,411,425</td>
</tr>
<tr>
<td><strong>Investments and Other Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities, at fair value</td>
<td>$6,854,517</td>
<td>$6,376,361</td>
</tr>
<tr>
<td>Deferred income taxes, net of allowance</td>
<td>352,900</td>
<td>353,700</td>
</tr>
<tr>
<td>Other</td>
<td>13,048</td>
<td>670,519</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>$7,220,465</td>
<td>$7,400,580</td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office and computer equipment</td>
<td>1,757,794</td>
<td>1,542,060</td>
</tr>
<tr>
<td>Furniture</td>
<td>876,733</td>
<td>788,252</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>487,160</td>
<td>483,992</td>
</tr>
<tr>
<td><strong>Less accumulated depreciation and amortization</strong></td>
<td>$3,121,687</td>
<td>$2,814,304</td>
</tr>
<tr>
<td><strong>Net property and equipment</strong></td>
<td>$1,132,899</td>
<td>$1,209,088</td>
</tr>
<tr>
<td><strong>Software Development Costs</strong></td>
<td>$3,590,000</td>
<td>$3,570,000</td>
</tr>
<tr>
<td><strong>Less accumulated amortization</strong></td>
<td>726,309</td>
<td>212,500</td>
</tr>
<tr>
<td><strong>Net software development costs</strong></td>
<td>$2,863,691</td>
<td>$3,357,500</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$15,955,384</td>
<td>$14,378,593</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Unrestricted Net Assets</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$4,296,094</td>
<td>$2,933,300</td>
</tr>
<tr>
<td>Deferred examination fee revenues</td>
<td>512,587</td>
<td>449,026</td>
</tr>
<tr>
<td>Long-term debt, current portion</td>
<td>143,288</td>
<td>429,000</td>
</tr>
<tr>
<td>Capital lease, current portion</td>
<td>65,999</td>
<td>62,787</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$5,017,968</td>
<td>$3,874,113</td>
</tr>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital lease</td>
<td>55,761</td>
<td>121,500</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>2,142,432</td>
<td>2,571,000</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>70,935</td>
<td>686,919</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>$2,269,128</td>
<td>$3,379,419</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$7,287,096</td>
<td>$7,253,532</td>
</tr>
<tr>
<td><strong>Total Unrestricted Net Assets</strong></td>
<td>$8,668,288</td>
<td>$7,125,061</td>
</tr>
<tr>
<td><strong>Total liabilities and unrestricted net assets</strong></td>
<td>$15,955,384</td>
<td>$14,378,593</td>
</tr>
</tbody>
</table>

*See Accompanying Notes to Consolidated Financial Statements*
# CONSOLIDATED STATEMENTS OF CASH FLOWS
For Years Ended July 31,

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in unrestricted net assets</td>
<td>$1,543,227</td>
<td>$486,990</td>
</tr>
<tr>
<td>Adjustments to reconcile increase in unrestricted net assets to net cash provided (used) by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization of property and equipment</td>
<td>387,642</td>
<td>402,096</td>
</tr>
<tr>
<td>Amortization of software development costs</td>
<td>513,809</td>
<td>212,500</td>
</tr>
<tr>
<td>Income from resolution of examination contract issue</td>
<td>(714,280)</td>
<td>0</td>
</tr>
<tr>
<td>Deferred rent credit</td>
<td>-0</td>
<td>(251,802)</td>
</tr>
<tr>
<td>Net gains on investment securities</td>
<td>(764,887)</td>
<td>(503,211)</td>
</tr>
<tr>
<td>Changes in assets and liabilities (Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(234,577)</td>
<td>(214,969)</td>
</tr>
<tr>
<td>Prepaid expenses and other non-current assets</td>
<td>631,872</td>
<td>307,656</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable, accrued expenses, and other long-term liabilities</td>
<td>746,810</td>
<td>(1,855,629)</td>
</tr>
<tr>
<td>Deferred examination fee revenues</td>
<td>63,561</td>
<td>(1,064,411)</td>
</tr>
<tr>
<td>Net cash provided (used) by operating activities</td>
<td>2,173,177</td>
<td>(2,480,780)</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment additions</td>
<td>(307,383)</td>
<td>(686,950)</td>
</tr>
<tr>
<td>Capitalized software development costs</td>
<td>(20,000)</td>
<td>(1,218,484)</td>
</tr>
<tr>
<td>Proceeds from disposal of leasehold improvements</td>
<td>-0</td>
<td>37,725</td>
</tr>
<tr>
<td>Redemptions of certificates of deposit</td>
<td>-0</td>
<td>2,700,292</td>
</tr>
<tr>
<td>Purchases of investment securities</td>
<td>(213,270)</td>
<td>(755,432)</td>
</tr>
<tr>
<td>Redemptions of investment securities</td>
<td>500,000</td>
<td>2,501,868</td>
</tr>
<tr>
<td>Net cash provided (used) by investing activities</td>
<td>(40,653)</td>
<td>2,579,019</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal payments on capital leases</td>
<td>(62,526)</td>
<td>(56,091)</td>
</tr>
<tr>
<td>Net cash used by financing activities</td>
<td>(62,526)</td>
<td>(56,091)</td>
</tr>
<tr>
<td><strong>Net Increase in Cash and Cash Equivalents</strong></td>
<td>2,069,998</td>
<td>42,148</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents, Beginning of Year</strong></td>
<td>1,584,160</td>
<td>1,542,012</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents, End of Year</strong></td>
<td>$3,654,158</td>
<td>$1,584,160</td>
</tr>
<tr>
<td><strong>Supplemental Cash Flow Information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>$7,827</td>
<td>$12,756</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>$67,397</td>
<td>$63,717</td>
</tr>
<tr>
<td><strong>Non-cash Investing and Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt reduction from examination contract issue resolution</td>
<td>$714,280</td>
<td>-0</td>
</tr>
<tr>
<td>Capital lease obligations incurred</td>
<td>-0</td>
<td>$14,641</td>
</tr>
</tbody>
</table>

See Accompanying Notes to Consolidated Financial Statements
Note 1. Organization
The National Association of State Boards of Accountancy, Inc. (the "Association") is a voluntary membership association of the boards of accountancy (or their equivalent) in the fifty states of the United States, the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. The Association's assets are limited to use or distribution in accordance with its Articles of Incorporation.

The Association's Examination related activities include programs and services related primarily to the testing and licensing of Certified Public Accountants in compliance with the requirements of boards of accountancy. Examination related activities also include the programs and services of Professional Credential Services, Inc. ("PCS"). PCS is a wholly-owned, for-profit subsidiary that offers testing, including examination development, licensing and certification services to various professions and occupations. Communication programs provide information, facilitate discussion and determine appropriate actions related to issues that concern boards of accountancy. Also included in these programs are the activities of the NASBA Center for the Public Trust ("CPT"), a related nonprofit, public benefit corporation whose mission is to spotlight ethical business practices and to foster the public's trust in American institutions and the professions that serve them. Other programs consist primarily of activities related to assisting boards of accountancy and licensees in identifying quality continuing professional education providers that meet nationally accepted standards for development, presentation, measurement and reporting of educational programs.

The Consolidated Statement of Activities for 2004 includes the administration and services for one paper and pencil Certified Public Accountant ("CPA") examination and four months of computerized CPA examinations, whereas for 2005 it includes a full year of computerized CPA examinations.

Note 2. Significant Accounting Policies
Basis of accounting
The Association and related organizations follow the accrual basis of accounting under which revenue is recognized when earned and expenses when incurred. All material intercompany accounts and transactions have been eliminated from the consolidated financial statements.

Cash and cash equivalents
Cash equivalents include investments in marketable securities, certificates of deposit 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, and cash is maintained in FDIC insured financial institutions. At times, such amounts may exceed the FDIC insurance limits.

Receivables and credit policies
Accounts receivable are uncollateralized obligations arising from contractual agreements with customers and the Association anticipates collection within 30 days unless otherwise specified. The carrying amount of accounts receivable 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, historical loss experience and existing economic conditions.

Prepaid expenses
Prepaid expenses consist primarily of prepaid insurance premiums, prepaid equipment maintenance contracts and payments to reserve testing facilities for future examinations.

Investment securities
The Association generally invests all resources in excess of anticipated working capital requirements in U.S. Treasury and other Federal Agency obligations, corporate obligations and fixed income and equity mutual funds.
Note 2. Significant Accounting Policies (Continued)

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Investment 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 the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported.

Property and equipment

Property and equipment 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. Repairs and maintenance are expensed as incurred.

Software development costs

The Association capitalizes and amortizes certain costs associated with the development of software for internal use in accordance with the provisions of Statement Of Position 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.” The costs are amortized over the original seven-year term of the contract underlying the software development of the National Candidate Database. (See Note 4.)

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 adjustments are made.

Revenue recognition

Examination related program fees are recognized as revenue when the services to which they relate have been completed. Fees for conferences and meetings are deferred until such events occur. Licensing fees are recognized as revenue when received.

Management, general and administrative costs

Management, general and administrative costs are allocated to program expenses based principally on the program’s contribution to revenue of the Association.

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. Contingent upon approval of Internal Revenue Code Section 501(c)(3) exemption status, CPT will be exempt from federal and state income taxes.

PCS accounts for income taxes using the asset and liability method under the provisions of Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes.” Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Note 2. Significant Accounting Policies (Continued)

Contributed services
Many individuals contribute significant amounts of time to the Association's activities. The financial statements do not reflect the value of these services primarily because the services would typically not be purchased in the absence of the individuals' contributions. Meeting and travel expenses for these individuals are reimbursed by the Association and included in the financial statements.

Note 3. Investment Securities, at fair value
Investment securities at July 31 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury and other Federal Agency obligations</td>
<td>$1,720,764</td>
<td>$1,676,443</td>
</tr>
<tr>
<td>Corporate and other debt obligations</td>
<td>620,947</td>
<td>557,485</td>
</tr>
<tr>
<td>Equity securities</td>
<td>4,512,806</td>
<td>4,142,433</td>
</tr>
<tr>
<td><strong>Total Investment Securities</strong></td>
<td><strong>6,854,517</strong></td>
<td><strong>6,376,361</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$264,973</td>
<td>$218,202</td>
</tr>
<tr>
<td>Net gains on investments</td>
<td>764,887</td>
<td>503,211</td>
</tr>
<tr>
<td><strong>Total Investment Income</strong></td>
<td><strong>$1,029,860</strong></td>
<td><strong>$721,413</strong></td>
</tr>
</tbody>
</table>

Note 4. Contract to Provide Examination Services
On May 31, 2002, the Association entered into an agreement (the “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 Certified Public Accountant examination. The Agreement extends for seven years from the administration of the first computer-based examination on April 5, 2004. The Agreement has extension options of up to three years, the exercise of which is contingent upon the achievement of certain performance measures by the parties to the Agreement.

Under the terms of the Agreement, the Association has developed and is required to operate and maintain a National Candidate Database which serves as a gateway for all examination candidates. The Agreement allows for the Association to recover, through fees charged directly to CPA examination candidates, all National Candidate Database costs and the costs of providing grade reporting and examination review services. In addition to the unamortized software development costs of $2,863,691 at July 31, 2005 (see Note 2), the Association has incurred and expensed through July 31, 2005 costs of $7,870,684, of which $4,027,835 has been recovered.
Note 4. Contract to Provide Examination Services (Continued)
The following table shows the amount of unrecovered costs at July 31:
The Association also collects from candidates the Prometric and AICPA fees related to the examination.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of software development costs</td>
<td>$513,809</td>
<td>$212,500</td>
</tr>
<tr>
<td>Other expenses</td>
<td>3,361,915</td>
<td>2,293,268</td>
</tr>
<tr>
<td>Total current year expenses</td>
<td>3,875,724</td>
<td>2,505,768</td>
</tr>
<tr>
<td>Current year recovered costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs recovered through fees</td>
<td>2,324,515</td>
<td>989,040</td>
</tr>
<tr>
<td>Costs recovered from examination contract issue resolution</td>
<td>714,280</td>
<td>0</td>
</tr>
<tr>
<td>Total current year recovered costs</td>
<td>3,038,795</td>
<td>989,040</td>
</tr>
<tr>
<td>Net current year unrecovered expenses</td>
<td>836,929</td>
<td>1,516,728</td>
</tr>
<tr>
<td>Capitalized software development costs</td>
<td>20,000</td>
<td>1,218,484</td>
</tr>
<tr>
<td>Amortization of software development costs</td>
<td>(513,809)</td>
<td>(212,500)</td>
</tr>
<tr>
<td>Net change in current year unrecovered costs</td>
<td>343,120</td>
<td>2,522,712</td>
</tr>
<tr>
<td>Unrecovered costs, beginning of year</td>
<td>6,363,420</td>
<td>3,840,708</td>
</tr>
<tr>
<td>Unrecovered costs, end of year</td>
<td>$6,706,540</td>
<td>$6,363,420</td>
</tr>
</tbody>
</table>

These funds are held in escrow accounts in the names of the respective parties and are disbursed when services are provided. At July 31, 2005 and 2004, escrowed funds amounted to $9,271,535 and $7,813,000, respectively. The escrowed funds and the related obligations are not included in the financial statements because they do not represent assets or obligations of the Association.

Note 5. Long-term Debt
The aforementioned Agreement provided for Prometric to advance up to $3,000,000 to the Association under a non-interest bearing line of credit for funding the development of the software. During fiscal year 2003, the Association received $3,000,000 per the terms of the Agreement. Under the original terms of the agreement, the total debt incurred would be repaid annually over a maximum period of seven years beginning in April of 2005 with minimum annual payments of approximately $429,000. However, as discussed in Note 10, the minimum annual payments for April of 2005 and 2006 were reduced to $0- and $143,288 respectively.

Minimum annual debt payments are set forth below.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2006</td>
<td>$143,288</td>
</tr>
<tr>
<td>Fiscal 2007</td>
<td>428,571</td>
</tr>
<tr>
<td>Fiscal 2008</td>
<td>428,571</td>
</tr>
<tr>
<td>Fiscal 2009</td>
<td>428,571</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>428,571</td>
</tr>
<tr>
<td>Thereafter</td>
<td>428,148</td>
</tr>
<tr>
<td>Total Long-term Debt</td>
<td>$2,285,720</td>
</tr>
</tbody>
</table>

Note 6. Retirement Plans
A noncontributory defined contribution pension plan covers all full-time employees meeting specified requirements. Pension expense amounted to approximately $332,000 for 2005 and $259,000 for 2004. The plan is funded by annual contributions made after the end of the plan year, which was changed to December 31 in fiscal 2004.
Note 6. Retirement Plans (continued)
In July 2005, the Association distributed the fully-funded balance of a non-qualified deferred compensation arrangement to the executive for whom the plan was provided. Under this arrangement, compensation in the amount of $38,000 and $51,000 was deferred in 2005 and 2004, respectively. Other assets and other long-term liabilities were equally reduced by the distribution.

The Association also maintains a 401(k) plan that is funded entirely by employee contributions. The Association pays fees related to the plan. The plan has no provision for employer matching of employee contributions.

Note 7. Capital Lease
The Association is obligated at July 31, 2005 under a capital lease for office equipment with future minimum lease payments as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Minimum lease payments</th>
<th>Less imputed interest</th>
<th>Present value of future lease payments</th>
<th>Less non-current portion</th>
<th>Current Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2006</td>
<td>$ 70,614</td>
<td>6,373</td>
<td>121,760</td>
<td>55,761</td>
<td>$ 65,999</td>
</tr>
<tr>
<td>Fiscal 2007</td>
<td>57,514</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The depreciated cost of the office equipment under the capital lease is approximately $111,400 and $175,000 at July 31, 2005 and 2004, respectively.

Note 8. Lease Commitments
The Association and PCS lease office space under operating leases that expire at various dates through 2013. 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 set forth below.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Minimum Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2006</td>
<td>$ 819,392</td>
</tr>
<tr>
<td>Fiscal 2007</td>
<td>766,236</td>
</tr>
<tr>
<td>Fiscal 2008</td>
<td>777,288</td>
</tr>
<tr>
<td>Fiscal 2009</td>
<td>788,311</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>796,256</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2,491,543</td>
</tr>
</tbody>
</table>

Total $ 6,439,026

Rent expense charged to operations for office space in 2005 and 2004 totaled approximately $883,000 and $569,000, respectively. On December 1, 2003, the Association entered into a new lease agreement with the lessor of its office space in Nashville. At the time of the change, the Association had approximately $252,000 of deferred rent credit representing the excess of rent expensed over rent paid since the inception of the lease in May 1997. Rent expense for 2004 was reduced by the elimination of the deferred rent credit.

The Association leases office equipment under various operating lease arrangements. Minimum lease payments remaining for equipment leases are $181,598 in fiscal 2006, $161,177 in fiscal 2007, and $58,650 in fiscal 2008. Expenses charged to operations under these leases in 2005 and 2004 totaled approximately $125,000 and $45,000, respectively.
Note 9. Income Taxes

Income tax expense of PCS comprises the following:
The actual income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 34% to loss before taxes as a result of the following:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>$84,200</td>
<td>$58,200</td>
</tr>
<tr>
<td>State</td>
<td>-0-</td>
<td>(2,700)</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>$84,200</td>
<td>$55,500</td>
</tr>
</tbody>
</table>

Income tax expense of PCS comprises the following:
The actual income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 34% to loss before taxes as a result of the following:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory federal income tax</td>
<td>$(33,900)</td>
<td>$(22,500)</td>
</tr>
<tr>
<td>Puerto Rico income tax, net of U.S. federal benefit</td>
<td>55,600</td>
<td>38,400</td>
</tr>
<tr>
<td>State income taxes, net of U.S. federal benefit</td>
<td>(10,300)</td>
<td>(8,300)</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>69,700</td>
<td>44,800</td>
</tr>
<tr>
<td>Other</td>
<td>3,100</td>
<td>3,100</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>$84,200</td>
<td>$55,500</td>
</tr>
</tbody>
</table>

At July 31, 2005, PCS had federal and state net operating loss carryforwards of approximately $1,277,000 and $1,039,000 respectively. The carryforwards expire at various dates from July 31, 2019 through 2025 for federal tax purposes and July 31, 2006 through 2025 for state tax purposes. The valuation allowance of $135,500 in 2005 and $65,800 in 2004 relates to federal and state net operating loss carryforwards that may expire before being realized. Although realization of the other deferred income taxes is not assured, management believes it is more likely than not that the recorded deferred income taxes will be realized.

Note 10. Income from Resolution of Examination Contract Issue

Due principally to an outstanding trademark license with the purchaser of certain assets of a former related entity, Prometric did not fully divest itself of those assets under the terms of the Agreement. As a result of this incomplete divestiture, Prometric agreed to reduce the Association's $3,000,000 liability to them by the cumulative amount of the Association's payments over the number of months the aforementioned trademark license remains outstanding, or a total of $714,280. See Note 5 for more details.