The Road Less Traveled

Founded in 1908, the National Association of State Boards of Accountancy (NASBA) serves as a forum for 55 boards of accountancy, including state boards in the 50 states, the District of Columbia, Guam, Puerto Rico, Virgin Islands and the Commonwealth of the Northern Mariana Islands. Through its volunteer committee network, programs and services, NASBA protects the public interest by assisting the boards of accountancy.

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NASBA—ON A ROAD LESS

While working for the state boards of accountancy, NASBA’s path has often diverged from popular and heavily traveled trails. To remain true to our charge as regulators, it has been our practice to seek the high road, do the right thing, and oft-times step where few, if any, have trodden. As Frost confirms, it often makes “all the difference.”

The very nature of our mission—to enhance the effectiveness of state boards of accountancy—is a “road less traveled,” but a road that must be taken. Boards of accountancy comprise the largest accountancy regulatory body in the world, and yet, at times, the older and more traditional paradigms that exclude boards and NASBA from decision-making on important national and international issues are a continuation of the worn-out paths we’ve been down before. We’ll not remain on a road that ignores the states whether it’s International Financial Reporting Standards (IFRS) or whether it’s any number of national issues. The “road less traveled” may mean the boards and NASBA will be challenged, as they take time to vet IFRS as the convention to replace GAAP in the largest economic power in the history of the world.

The Uniform Accountancy Act (UAA) and Rules are a model for our states, which places accountancy regulation in a rare position. No other association of regulators of a national profession can point to the kind of success NASBA and the boards are experiencing with adoption of the UAA and, more specifically, its mobility provisions based on the concept of substantial equivalency. On January 1, 2007, we had four states with mobility language (No notice, No fee, No escape); We now have 31 states, and by this time next year, we’ll have 40-45 states with laws and rules which, in effect, grant practice privileges throughout the U.S. and its jurisdictions. Now, that’s a road not well traveled!

NASBA’s Compliance Assurance Committee is making strong progress among our states in requiring effective transparency of peer review reporting, as well as establishing independent and objective oversight of the peer review process.

NASBA’s Center for the Public Trust (CPT) began three years ago on a barely visible path—a road, however, that had to be taken. It is the road that we believe will lead to a superhighway of action on ethics, upright behavior and best practices and continued recognition of companies, CEOs, CPAs, attorneys and other professionals who choose the honorable, the just and, sometimes, that “road less traveled.”

There is never an end to new roads or extended roads to travel. Over the next three years, NASBA will continue building the momentum established in 2008 by enhancing services to our boards, the profession and other clients and customers. In September 2009, NASBA will showcase our first CPE Expo in San Antonio, TX, bringing high quality CPE Registry providers, exhibitors, accountancy board members, representatives of the profession and CPAs seeking CPE courses together in one comprehensive venue.

We’ll continue to add states’ licensure information to the Accountancy Licensee Database (ALD). ALD is on the move simply because in this mobile world, boards of accountancy need an effective means to monitor licensees no matter the state of licensure. We will continue to foster this program until 100 percent of all states and jurisdictions are members. It’s a road the public expects us to take, however rare it is among other professions.

While we respect and appreciate our past accomplishments and successes, we are now focused on the future and peeking at roads that lead us 12 years forward to 2020. These roads will take us to renewed emphasis on the computerized CPA examination, careful consideration of an international CPA examination, teaching ethics through the NASBA CPT, becoming a leader in licensure best practices, utilizing innovative technologies, reaching new markets through Professional Credential Services (PCS) and promoting state boards’ influence in global licensure.

Sometimes it is challenging to see clearly the road not taken by the majority. But we in NASBA and our member boards know that “those who see the invisible can do the impossible.” And the “impossible” is almost always found at the end of “the road less traveled.”

Sincerely,

Samuel K. Cotterell, CPA
Chair

David A. Costello, CPA
President & Chief Executive Officer

Joseph T. Cote, CPA
Executive Vice President & Chief Operating Officer

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.

(“The Road Not Taken”—by Robert Frost)
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.

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.

Our Vision

To be and to be known as the clear, trusted and leading voice of state boards of accountancy serving the public interest.
Committee

The achievements of an organization are the result of the combined effort of each individual. - Vince
ACCOUNTANCY LICENSEE DATABASE (ALD) TASK FORCE

The Accountancy Licensee Database (ALD) Task Force was newly appointed in April 2008. The ALD was implemented in 2005 as a central repository of licensee and firm information provided and kept current by boards of accountancy. The primary purpose of the ALD is to assist boards with their regulatory efforts. Ideally, the ALD will become the most comprehensive, current and accurate source of licensing information about individual licensed accountants and accounting firms in the U.S. By early 2008, only 15 boards were actively contributing to and using the ALD. The goal of the Task Force is to assist boards in overcoming any obstacles they may face in participating in the ALD. Obstacles include privacy concerns, policy issues and technical difficulties in exchanging data. Since the Task Force was formed, three additional boards have joined the ALD and nine have committed to joining. As a result, the total number of participating boards is expected to increase to 27 sometime in 2009.

Chair:  Daniel Sweetwood (NE)

Members:  Rebecca Adams (CT)
           Patti Bowers (CA)
           Mark Crocker (TN)
           Daniel J. Dustin (NY)
           Heidi Patterson (IA)
           Richard C. Sweeney (WA)
           Robert Streifer (CO)
           Viki A. Windfeldt (NV)
           Lisa Zolman (WA)

Staff Liaisons:  Joseph T. Cote
                Kenneth Denny

ADMINISTRATION AND FINANCE COMMITTEE

The Administration and Finance Committee monitors the fiscal operations of the Association. Walter C. Davenport, NASBA Treasurer, serves as chair of the Committee. The Board of Directors relies on the Administration and Finance Committee to provide oversight of the Association’s financial performance from operational and investment-related activities. 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.

Chair:  Walter C. Davenport (NC)

Members:  John W. Clay (KY)
           David D. Duree (TX)
           John E. Katzenmeyer (OH)
           Leonard R. Sanchez (NM)
           E. Kent Smoll (KS)
           Kim Tredinnick (WI)

Staff Liaison:  Michael R. Bryant

The Committee also reviewed insurance coverages, internal controls and operating and capital budgets. The Investment Committee, a Subcommittee of the Administration and Finance Committee, reviewed the performance of NASBA’s short-term and long-term investments and monitored compliance with the board-approved investment policy of the Association.
AWARDS COMMITTEE
The Awards Committee met in July 2008 to review the nominations and make recommendations to the NASBA Board of Directors for the William H. Van Rensselaer Award, the NASBA Distinguished Service Award and the inaugural Lorraine P. Sachs Standard of Excellence Award. This year’s award recipients are John B. Peace of Arkansas (William H. Van Rensselaer Award), Harold D. Hein of Colorado (NASBA Distinguished Service Award) and Carol Sigmann of California (Lorraine P. Sachs Standard of Excellence Award). The Lorraine P. Sachs Standard of Excellence Award is named in honor of the former Chief Operating Officer of NASBA.

BYLAWS COMMITTEE
The Bylaws Committee met via conference call twice in 2008. During the calls, Committee members reviewed the Bylaws to determine any necessary changes. The Committee decided that no changes were necessary at this time.

CBT ADMINISTRATION COMMITTEE
Operational examination issues and enhancements continued to be the focus for the CBT Administration Committee. The Committee reviewed and approved the operational procedures for the Biometric Identity Management System, implemented by Prometric. At the request of the BOE, the Committee revisited the retention period for Biometric’s data and selected a five-year period that is based on the candidate actively testing.

The Committee participated in the survey from the BOE that provided information regarding the enhancements to the computer-based examination.

Also, the Committee said good-bye to one of its original members, Carol Sigmann, as she retired from the State of California. Carol provided major support and insight to the Committee and will be greatly missed.

The CBT Administration Committee continues to be a great asset to the examination process as they consider examination issues that are faced on a daily basis throughout the year.
In 2006, the Special Examination Issues Task Force issued a report to NASBA’s Board of Directors calling for additional study in two areas related to the CPA Examination – international delivery of the Exam and preparing for the Exam’s future. As a result, the Committee on Internationalization of the CPA Examination and the Committee on National Examination Preparedness were formed.

The Committee on Internationalization of the CPA Examination formed a joint effort with the AICPA and Prometric and studied why international candidates have such an interest in taking the CPA Examination and how many international candidates might take the CPA Examination if it were offered internationally. Study findings indicate that many international candidates take the CPA Examination in order to progress in their employment in their home countries without ever intending to seek licensure in the United States.

The Committee came to believe that if the CPA Examination were offered in international locations, many more international candidates than the current 7,000 would likely take the Examination.

The Joint Committee concluded that the CPA Examination could be offered internationally, if international candidates would agree to meet certain conditions. For example, international candidates might agree to either take a licensure track, or, if they did not intend to seek licensure, agree to meet certain additional requirements that would parallel the requirements that licensed CPAs must meet. The Joint Committee is continuing to meet and hopes to have an operating plan developed by the end of 2008.

COMMITTEE ON NATIONAL EXAMINATION PREPAREDNESS

The Committee focused on two projects: developing a contingency exam should the current CPA Examination not be available (for any reason) and preparing for the optimal course of action when the current CBT Services Agreement (between NASBA, the AICPA and Prometric) ends in 2014. The Committee studied the factors that need to be considered in developing and delivering a contingency CPA Examination. The Committee also identified factors that should be considered in a new or extended CBT Services Agreement. During the Committee’s meetings with the AICPA, the AICPA requested that the current CBT Services Agreement be extended so that its capitalized development costs (approximately $44 million) could be amortized over a longer period of time and, thus, enabling the AICPA to maintain lower candidate fees. Once the Committee reached certain preliminary conclusions, it sponsored a Conference on the State of the Examination on May 19, 2008. At this Conference, state board members had the opportunity to comment on the Committee’s ideas.
COMMUNICATIONS COMMITTEE

The Communications Committee is charged to develop and promote innovative and unique programs and methods for communications by state boards of accountancy and NASBA with other agencies, consumers, the CPA profession and legislative bodies. During the 2007-2008 year, the Committee centered its focus on the role of the state board Communications Officer. At the June 2008 Regional Meetings, Committee Chair Sally Flowers and members of the Committee hosted a breakout session for board members to discuss the role of the Communications Officer, introduce the new Committee Web page and provide a platform for the sharing and exchange of state board initiatives. In particular, the public awareness tools and outreach initiatives currently in use by state boards of accountancy were discussed. In addition, they will host a meeting of Communications Officers during the 101st Annual Meeting to demonstrate the architecture, usefulness and content of the Committee site.

In the 2008-2009 year, the Committee will work closely with the state board Communications Officers to implement communications initiatives and programs to further enhance public awareness and outreach.

Chair: Sally Flowers (CA)

Members: Jim Abbott (ND)
Norman Wade Biswell (OK)
Nancy L. Bruner (IA)
Margaret A. Cartier (IL)
Jefferson Chickering (NH)
Mark T. Hobbs (SC)
Nicole L. Olson (SD)
Arnold Williams (MD)

Staff Liaison: Thomas G. Kenny
The Compliance Assurance Committee completed its work through three subcommittees as follows:

- Task Force to Address Oversight Issues: review components of the AICPA Peer Review Oversight Model
- Task Force on Adoption and/or Continuation of Mandatory Peer Review in all 55 jurisdictions and UAA Rules 7-2 through 7-5, as crafted in 2007 regarding compliance assurance, oversight and transparency
- Peer Review Oversight Committee Implementation Task Force

The Committee’s objective was to develop and promote oversight for state boards of accountancy vis-à-vis Peer Review. The guiding principles of oversight being promoted were: ensuring a program that is effective and uniform; and increasing transparency increases understanding and confidence. Committee Chair Mark P. Harris provided a comprehensive overview of the CAC's initiatives at each Regional Meeting and distributed the following materials:

- State Board Peer Review Status Map
- Facilitated State Board Access Program Update
- Peer Review Oversight Model Background & Descriptions
- Tentative Schedule of Oversight Task Force Visits in 2008
- State Board Compliance Assurance Oversight Committee Statement & Key Provisions
- MS Board Oversight Committee Report
- Definitions and Related Acronyms
- Excerpts of UAA Article 7—Related to CAOC and Submission Rules
- Sample Oversight Visit Reports

The highlight of the year was the Peer Review Oversight Committee (PROC) Conference, which was held in Nashville, TN on September 22, 2008. This effort was led by Chair Mark Harris and Subcommittee Chair Jimmy Burkes. The purpose of the conference was:

- To discuss the important role of PROCs, from their perspective
- Determine how to coordinate PROCs with peer review program oversight models
- Obtain insight toward implementation and coordination of PROCs
- Provide a forum to discuss current and future Peer Review Standards and Administration

Chair: Mark P. Harris (LA)

Members:
- Jimmy E. Burkes (MS)
- James S. Ciarcia (CT)
- Charles W. Clark (ID)
- Doris Cubitt (SC)
- Alicia J. Foster (MD)
- James W. Goad (AR)
- Janice L. Gray (OK)
- J. Lamar Harris (AL)
- Henry Krostich (NY)
- Sharon J. McNair (NV)
- Robert Petersen (CA)
- Virginia A. Powell (KS)

Staff Liaison: Lisa J. Axisa
Based on our review and evaluations, it is our opinion that boards of accountancy may rely on the 2007 Uniform CPA Examination and the International Uniform CPA Qualification Examination in carrying out their licensing responsibilities," reported CPA Examination Review Board Chair Barton Baldwin during his presentations of the ERB Annual Report to the 2008 Regional Meeting participants. The ERB presented a comprehensive management letter to the CPA Licensing Examinations Committee. The recommendations in this document were distributed via a matrix to all boards of accountancy in late August.

The ERB also performed an analysis of NASBA and the AICPA’s examination costs. Based on their analysis, the ERB did not note any material exceptions to the AICPA or NASBA operational expenses for the fiscal years ended July 31, 2006 and 2007.

CPA LICENSING EXAMINATIONS COMMITTEE

The CPA Licensing Examinations Committee is charged with communicating with boards of accountancy and others with a vested interest in both the Uniform CPA Examination and the International Uniform CPA Qualification Examination (IQEX) to ensure the boards are provided with the best professional licensing examinations possible. To achieve that goal, the Committee asked boards to provide feedback so that positive aspects would be retained and negative aspects addressed. The feedback confirmed that the Committee was focused on the appropriate subjects, including composition of the AICPA’s Board of Examiners (BOE), candidate concerns about the examinations, the practice analysis project, the effectiveness of simulations on the CPA Examination and the coverage of ethics on the CPA Examination. Again this year, the Committee coordinated NASBA’s efforts to submit highly qualified individuals to serve on the BOE and its subcommittees.

Chair: Robert A. Pearson (MO)
Members: Kay C. Carnes (WA)
Rick Elam (MS)
Peggy Morgando (WY)
Richard Reisig (MT)
Thomas R. Weirich (MI)
Janice B. Wilson-Marcum (CA)
Staff Liaison: Joseph T. Cote
Throughout 2008, the CPA Mobility Task Force has been engaged in a major effort to advance the adoption of Sections 7, 14 and 23 of the UAA which provide for “No notice, No fee and No escape” for CPAs who engage in practice across jurisdictional boundaries. Twenty-eight states have now adopted provisions through legislation or rule changes that implement “mobility” consistent with the provisions of the UAA. Three additional states have implemented provisions that provide limited mobility by extending practice privileges to other mobility states (quid-pro-quo). This is an increase of 17 states over 2007 for a total of 31. A total of 14 additional state boards of accountancy have voted to support and move toward the adoption of mobility provisions. Twelve of these states have drafted legislation for consideration in the 2009 legislative sessions. The Task Force has worked closely with the CPA Society Executives Association, AICPA, and the Accountants Coalition in this endeavor.

NASBA has also adapted the NASBAtools.com Web site to be “mobility friendly” to help CPAs easily find the information they need to understand their responsibilities in seeking practice privilege across jurisdictional boundaries.

## CPA MOBILITY TASK FORCE

- **Chair:** Ronald J. Rotaru (OH)
- **Members:**
  - Albert J. Cannon (OH)
  - Ellis M. Dunkum (VA)
  - Thomas J. Kilkenny (WI)
  - Theodore W. Long, Jr. (OH)
  - Cynthia H. Norwood (VA)
  - Kenneth R. Odom (AL)
  - Robert H. Temkin (MA)
  - Laurie J. Tish (WA)
  - Douglas E. Warren (TN)
  - Arthur M. Winstead, Jr. (NC)
- **Staff Liaisons:** Ed Barnicott, Ken L. Bishop, Maria L. Caldwell

## CPE ADVISORY COMMITTEE

During 2007-2008, the CPE Advisory Committee was focused on its mission, to monitor the Statement on Standards for Continuing Professional Education (CPE) Programs to encourage implementation by state boards and to develop aids and interpretations of the Standards. The Committee convened three times during the year to discuss interpretations and address sponsor appeals. Additionally, the Committee chair along with staff met twice with the Florida Board of Accountancy to discuss improvements to the Quality Assurance Service program.

- **Chair:** Theodore W. Long, Jr. (OH)
- **Members:**
  - Thomas S. Chambers (MD)
  - Courtney Cowgill (CO)
  - Ruben A. Davila (CA)
  - Carole M. Hersch (VA)
  - Archer M. Honea (OK)
  - Adley E. Johnson (KS)
  - Telford A. Lodden (IA)
  - John Steven Marcum (KY)
  - John McManus (DE)
  - L. Martin Miller (PA)
  - John R. Rogers (IL)
  - Ramanik Shah (MN)
  - Willie B. Sims, Jr. (MS)
  - Robert H. Sommer (NJ)
  - Taling M. Taitano (GU)
  - Mark Weinstein (NM)
  - Richard Zacharia (NE)
- **Staff Liaisons:** Carla Blake, Yordanos Dumez
EDUCATION COMMITTEE

The Education Committee had a very active year finishing its work on the changes to the UAA Model Rules 5-1 and 5-2. The Committee posted an exposure draft of its recommendations on the NASBA Web site from November 2007 through January 2008 for feedback from all interested parties. Approximately 40 boards, organizations, academic institutions and individuals submitted feedback to the Committee. After incorporating portions of the recommendations received, the Committee presented its proposed changes to the model rules to the NASBA Board of Directors who unanimously accepted the changes.

The Education Committee also worked with the Regulatory Response Committee in February 2008 to respond to a survey submitted by IFAC Education Standards Board. Members of both Committees participated in a conference call to agree on the answers to the survey questions. The Education Committee then submitted the responses to the IFAC representing NASBA’s official position. Billy Atkinson, committee chair, also began discussions with the American Accounting Association (AAA) leadership with a goal of strengthening NASBA’s relationship with the Association.

ETHICS COMMITTEE

The Ethics Committee began its work with a conference call on December 18, at which time task forces were established to achieve the following:

- consider standardization of ethics enforcement
- monitor the AICPA’s Professional Ethics Executive Committee’s (PEEC) projects
- monitor international ethics standards setting

Several conference calls were held throughout the year and the Committee held a meeting in Dallas on May 20. During each gathering, PEEC members Harry Parsons and Gaylen Hansen advised the Ethics Committee on the issues being discussed by PEEC which could have an effect on state boards or NASBA.

At NASBA Board Meetings, several formal recommendations from the Committee were presented by Chair Parsons. These included:

- NASBA should seek increased representation on the AICPA’s PEEC.
- NASBA should continue to educate the member boards on international standards developments and continue educating international bodies on the key role the boards play in regulating the U.S. accounting profession.

At both 2008 Regional Meetings, the Ethics Committee worked with the CPE Advisory Committee to facilitate a discussion of how ethics education and CPE requirements are being implemented in the states. The Ethics Committee is also working with the NASBA Regulatory Response Committee to develop responses to exposure drafts related to ethical standards.

Chair: Harry O. Parsons (NV)
Members: Rona Chemo (NY), Tyrone Dickerson (VA), Susan M. Harris (MS), James A. Landaker (OH), Marianne Mickelson (IA), Larry E. Nunn (IN), Vicky Petete (OK), Michael Weinsheil (CT), Cecil Wood (MO)
Staff Liaison: Louise Dralter Haberman

Chair: Billy M. Atkinson (TX)
Members: Charles H. Calhoun, III (FL), Douglas W. Skiles (NE), James C. Flagg (TX), Joanne Vician (IL), John E. Peterson (SD), Kathleen K. Mooney (MN), Melanie G. Thompson (TX), Nicholas J. Mastracchio, Jr. (FL), Patrick D. McCarthy (LA), Penelope Yunker (IL), Ronald E. Nielson (IA), Sonia Gomez de Torres (PR), Stephen C. Del Vecchip (MO)
Staff Liaison: Alfonzo Alexander
EXECUTIVE DIRECTORS COMMITTEE

The Executive Directors Committee represents the executive directors of the 55 boards of accountancy. The Committee is dedicated to the objective of learning from each other. The Twenty-Sixth Annual Conference for Executive Directors in Austin, TX, achieved that objective as executive directors discussed topics such as enforcement, mobility and international interaction. States who have successfully worked through these issues were eager to share their strategies with fellow executive directors. Attendees praised the event as “one of the best conferences ever.”

Chair: Viki A. Windfeldt (NV)
Members: J. Lamar Harris (AL)
          Pamela Ives Hill (MO)
          Heidi Patterson (IA)
          Edith Steele (OK)
          Richard C. Sweeney (WA)
          Daniel Sweetwood (NE)
Staff Liaison: Linda L. Biek

GOVERNMENTAL AGENCY REFERRAL TASK FORCE

In June 2007, the President’s Council on Integrity and Efficiency issued the Report on National Single Audit Sampling Project. It was performed to determine the quality of single audits and to make recommendations to address noted audit quality issues. State boards of accountancy were specifically identified as responsible parties in maintaining the high-quality work of certified public accountants.

The Task Force eagerly met with representatives from the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and various cognizant/oversight federal agencies to identify a mechanism to effectively deal with substandard work that has been identified by these agencies. The series of meetings resulted in the development of the Government Agency Referral Program, which went into effect in the fall of 2008, and will provide for enhanced communication between state boards and federal agencies. Furthermore, the Task Force developed a plan for NASBA to move forward with consideration of an Enforcement Assistance Program for state boards.
INTERNATIONAL QUALIFICATIONS APPRAISAL BOARD

The NASBA/AICPA International Qualifications Appraisal Board continued to correspond with non-U.S. professional associations interested in establishing mutual recognition agreements with the U.S. profession. Beginning in November 2007, the task forces included: Hong Kong Institute of CPAs Task Force; Four E’s Evaluation Criteria Scoring Template; National Institute of Accountants (Australia) Task Force; IQAB Communications Task Force; U.S. IQAB Procedures and Questionnaire Task Force; and BOE International Qualifications Examination Task Force. By the April 17, 2008 IQAB meeting in Alexandria, VA, the following were determined:

- An organization should be able to directly apply to NASBA or the AICPA for consideration for a mutual recognition agreement, rather than first requiring a state board to recommend such a study be undertaken.
- IQAB’s application review procedure should take into consideration information obtained from the World Bank as well as the International Federation of Accountants (although membership in IFAC should not be required for partnership).
- Continue to utilize a template for evaluating applications to ensure consistency in present and future evaluations.
- Recommend that the administration of the IQEX, which is currently in November, be moved to late summer/early fall and that the AICPA and NASBA investigate administering IQEX in all countries where there are MRA partners.
- Renew the tri-party MRA linking the U.S., Canadian and Mexican professions. A signing ceremony for the renewal was conducted in Alexandria, VA, which was attended by representatives of NASBA, the AICPA, Canadian Institute of Chartered Accountants, the Instituto Mexicano de Contadores Publicos and government officials.

Chair: William Treacy (TX)
Members: Sheila M. Birch (OH)  
Charles H. Calhoun, III (FL)  
Kay C. Cames (WA)  
Kermit Lucena (PR)  
Leonard R. Sanchez (NM)
Staff Liaisons: Louise Dralter Haberman  
Patricia L. Hartman

INTERNATIONAL REGULATORS CONFERENCE COMMITTEE

In recognizing the pace of the global economy, NASBA leadership appointed a group of distinguished individuals to identify the international governmental entities that regulate the practice of public accounting. The Committee then established contact to determine if there was an interest in convening a conference to discuss accounting, auditing and ethics standards. The culmination of efforts resulted in the NASBA Forum of International Accountancy Regulators in Boston, MA. Attendees from as far as China, New Zealand and the European Union gathered to evaluate the current trend toward globalization while state board members walked away with a better understanding of how to address international issues within their borders.

Chair: Michael D. Weatherwax (CO)
Members: Charles H. Calhoun, III (FL)  
John G. D. Carden (AL)  
Robert L. Gray (NY)  
Gaylen R. Hansen (CO)  
Mark P. Harris (LA)  
Wesley P. Johnson (FL)  
Grace M. Lopez-Williams (GA)  
William Treacy (TX)
Staff Liaisons: Linda L. Biek  
Maria L. Caldwell
LEGISLATIVE SUPPORT COMMITTEE

The Legislative Support Committee focused this year on the development, launch and growth of its page on the NASBA Web site. The page was conceived by the 2006-2007 Legislative Support Committee, leaving its design and content to be finalized and worked through with NASBA staff by the 2007-2008 Committee. The page contains sections on: resources, publications, news, letters, testimony and strategies. At the 2008 State Board Executive Directors Conference, the Legislative Support Committee distributed information prepared by Richard Sweeney, executive director of the Washington Board, which discussed the site and suggestions that were collected from the executive directors. The Committee recognized that the executive directors are key to keeping the page supplied with useful material and having the page benefit the member boards.

To strengthen the communication link with the executive directors, Chair Johnson appointed a task force of Ronald Rotaru, executive director of the Ohio Board, and Mr. Sweeney, to create a network of executive directors, each of whom would lead a team of executive directors (approximately six) who would be contacted on a monthly basis for information to be posted to the Committee’s page. The information would provide resources to increase the legislative effectiveness of state boards of accountancy. Besides including information regularly provided by the Mobility Task Force, the page offers guidelines, letters, articles, etc., that state boards have used in promoting legislative initiatives. These range from a poll of the public’s understanding of the use of the word “accountant” to how to lobby effectively.

NOMINATING COMMITTEE

The Nominating Committee met in March to select a candidate for the position of Vice Chair. As a part of the selection process, each recommended candidate completed a questionnaire that included questions about specific skills and experience that they could bring to NASBA through a leadership role. The members of the Nominating Committee attended the 2008 Eastern and Western Regional Meetings to meet and familiarize themselves with Board nominees, following which, they met to select their candidates for other Board positions. In accordance with the NASBA Bylaws, the Committee submitted its report to NASBA Chair Sam Catterrell.

Chair: Carlos E. Johnson (OK)
Members: Donald H. Burkett (SC)
          Sharron Cirillo (DE)
          Stephen Epstein (MI)
          Joyce Green (SC)
          John H. Hawkins, Jr. (KY)
          Raymond Johnson (OR)
          Marshal A. Oldman (CA)
          Ronald J. Rotaru (OH)
          Richard C. Sweeney (WA)
Staff Liaison: Louise Dralter Haberman

Chair: Wesley P. Johnson (MD)
Members: Dorothy M. Fowler (TX)
          Robert B. Cagnassola (NJ)
          John G.D. Carden (AL)
          Charles W. Clark (ID)
          Michael T. Daggett (AZ)
          Leonard W. Jones (NC)
          Nina B. Kavich (NE)
          Ray G. Stephens (OH)

Staff Liaisons: David A. Costello
               Anita L. Holt
PAST CHAIR ADVISORY COUNCIL
Established in 2000, members of the Past Chair Advisory Council have come together annually to provide insight into NASBA’s performance and current issues based on their experiences. The Committee met prior to the 2007 Annual Meeting and have another such meeting planned prior to the 2008 Annual Meeting.

Chair: Wesley P. Johnson (FL)  
Members: Barton W. Baldwin (NC)  
Sarah G. Blake (AZ)  
Milton Brown (NJ)  
Thomas F. Cardenga (MD)  
K. Michael Conaway (DC)  
Albert J. Derbes, III (LA)  
Robert C. Ellyson (FL)  
Welling W. Fruehauf (PA)  
Nathan T. Garrett (NC)  
John M. Greene (SC)  

Staff Liaison: Joseph T. Cote

REGULATORY RESPONSE COMMITTEE
The Regulatory Response Committee met via conference call when exposure drafts were released that could impact the state boards’ regulatory and enforcement responsibilities. During this committee year, responses were drafted by the Committee, then approved by NASBA Chair Samuel Cotterell and President David Costello, and sent to:

◆ U.S. Securities and Exchange Commission – RE: Concept release allowing U.S. issuers to prepare financial statements in accordance with IFRS  
◆ AICPA Professional Ethics Executive Committee – RE: Proposed Interpretation 501-B Under Rule 501  
◆ Financial Accounting Foundation - RE: Request for comments on proposed changes to oversight, structure and operations of the FAF, FASB and GASB  
◆ International Accounting Education Standards Board (developed with NASBA Education Committee) – RE: Response to survey on enhancing accounting education  
◆ Department of Housing and Urban Development – RE: Proposal for creation of an independent public accountant roster  
◆ Department of the Treasury’s Advisory Committee on the Auditing Profession – Re: Comments on ACAP preliminary recommendations

The Committee is considering the revisions of the constitution of the International Accounting Standards Committee Foundation and is also coordinating its efforts with the NASBA Ethics Committee to address changes proposed for the “Code of Ethics for Professional Accountants” by the International Ethics Standards Board for Accountants.

Chair: Richard Isserman (NY)  
Members: Alan J. Bronstein (VI)  
Gaylen R. Hansen (CO)  
Raymond Johnson (OR)  
Edwin G. Jolicoeur (WA)  
Leslie A. Mostow (MD)  
John C. Olsen (NY)  
Ray G. Stephens (OH)  
Robert H. Temkin (MA)  

Staff Liaison: Louise Dralter Haberman
REGULATORY STRUCTURES AND ISSUES COMMITTEE

The Committee struck out with a plan to address comments from various federal agencies relating to the enforcement efforts of state boards. In response to these comments, the Committee devoted time and energy to ensure the development of strategic relationships between state boards and federal agencies. The Regulatory Structures and Issues Committee will continue to develop standards and processes for developing and responding to regulatory and legislative initiatives.

**Chair:** Ellis M. Dunkum (VA)

**Members:**
- Patricia A. Crecco (NY)
- Valerie M. Elliott (AZ)
- Robert L. Gray (NY)
- Claireen Herting (IL)
- Robert J. Hyde (MN)
- Paul Thomas Mechsner (MO)
- Antonia B. Smiley (DC)
- Dena G. Williams (NY)

**Staff Liaison:** Linda L. Bieker

RELATIONS WITH MEMBER BOARDS COMMITTEE

The Committee, which includes all of NASBA’s Regional Directors, continued to reach out to the member boards to gather their input on issues being addressed by the Association. This was accomplished through sending out focus questions and analyzing their responses three times during the year, visiting state board meetings and moderating regional discussion sessions during the Annual and Regional Meetings. The Regional Directors reported regularly to the NASBA Executive Committee and Board on what they learned from the member boards.

Besides lending their support to the Mobility Task Force’s efforts, the Regional Directors asked to be part of the effort to have all states included in the Accountancy Licensee Database.

**Chair:** Michael W. Skinner (GA)

**Members:**
- Donald H. Burkett (SC)
- Sally Flowers (CA)
- Claireen Herting (IL)
- Carlos E. Johnson (OK)
- Harry O. Parsons (NV)
- E. Kent Smoll (KS)
- Michael Weinshel (CT)
- Antonia B. Smiley (DC)
- Viki A. Windfeldt (NV)

**Staff Liaison:** Louise Dralter Haberman
The Strategic Initiatives Committee, charged to study what is required to maintain state boards’ relevance, monitored international/global developments related to standard setting and regulation, as well as activities of the Treasury Department’s Advisory Committee on the Auditing Profession (ACAP). The Committee has continued to discuss emerging issues related to IASB, IFAC and the potential adoption of IFRS by the SEC and the effect these actions could have on U.S. accounting, auditing, education, ethics and related CPA Examination standards and practices.

On May 18, 2008, the AICPA officially designated the IASB as an authorized standard-setter and on August 27, 2008, the SEC proposed a “Roadmap” for adoption of IFRS by public companies beginning in 2014. The Committee recommends that NASBA establish a clear position on these significant developments and consider what, if any, changes are necessary to the Uniform Accountancy Act (UAA). NASBA should proactively update and educate boards of accountancy and other professional bodies of the direct impact IFRS adoption will have on accountancy rules, education requirements and examination practices and, when requested, advise state boards of the appropriate measures to pursue in anticipation of these changes. To assist state boards in their regulatory responsibilities, NASBA should play a significant role in the discussion, vetting and application processes of international standards.

The Committee further recommended NASBA form committees to study the following areas and make additional recommendations for their administration, coordination and implementation efforts.

**International Financial Reporting Standards (IFRS)** – Actively encourage colleges and universities to include IFRS in their curriculums and work with the AICPA Board of Examiners to establish appropriate timelines for changes in examination content. In addition, NASBA should conduct an inventory of state rules and regulations, and make recommendations to the UAA and state boards in anticipation of the advent of international standards in the U.S.

**Accountancy Licensee Database (ALD)** – Initial ACAP discussions to implement a national license that could have threatened the current state-based regulatory system were later dismissed due to state boards’ progress in adopting UAA Section 23 mobility provisions. It was revealed that passage of practice mobility legislation is only the first step in enhancing the regulatory oversight needed to implement a full mobility environment. Furthermore, the long-term success of practice mobility is intertwined with an effective ALD that will provide the necessary transparency for appropriate oversight of cross-border practice. The Committee strongly recommends all accountancy boards adopt the ALD to fulfill their regulatory responsibilities.

**State Board Independence** – The intrinsic value of state boards is increasingly under pressure from outside influences (including other state agencies) that can directly affect board regulation and oversight. Financial and operational independence of boards of accountancy are key elements to enhance state board regulatory authority and are critical in assuring adequate investigations and enforcement. The Strategic Initiatives Committee recommends the allocation of significant resources to assist state boards to achieve appropriate levels of independence.

**Chair:** Gaylen R. Hansen (CO)

**Members:**
Kent Bailey (OR)  
Gerald Burns (OR)  
Lazaro Serrano Cid (PR)  
Bobby Creech, Jr. (SC)  
Richard G. David (MI)  
Princy Harrison (MS)  
David L. Koerwitz (WY)  
Dan J. Rieke (AR)  
Patrick M. Thorne (NV)  
Lydia M. Washington (NY)

**Staff Liaison:** Thomas G. Kenny
The UAA Committee focused on making changes to the Model Rules. The changes include support for the “No notice, No fee, No escape” concept included in Section 23 of the Uniform Accountancy Act, an update of the examination-related rules to reflect the advent of the computer-based examination and an alignment of terminology to conform to certain peer review concepts. It is anticipated that the Model Rules proposals will be brought to the October Board Meeting by Chair DuBoff, who will ask that they be approved for exposure for public comment following the NASBA Annual Meeting. No changes to the Uniform Accountancy Act were proposed during this committee year.

Changes to Section 5 of the Model Rules, related to required education, were developed and released as an exposure draft by the Education Committee. With the approval of the UAA Committee, these were presented to the NASBA Board at its April meeting and adopted as submitted.

The UAA Committee has also approved the updating of the NASBA Substantial Equivalency chart to reflect changes in certain state boards’ requirements.

Chair: Andrew L. DuBoff (NJ)
Members: Ellis M. Dunkum (VA)
J. Dwight Hadley (NY)
Thomas J. Mulligan (OH)
Robert A. Pearson (MO)
Renata M. Sos (CA)
Daniel Sweetwood (NE)
James F. Thielen (FL)
Laurie J. Tish (WA)
Michael D. Weatherwax (CO)
Stanley C. Wood (ID)
Legal Counsel: Noel L. Allen
Staff Liaison: Louise Dralter Haberman
Leadership

Good business leaders create a vision, articulate the vision, passionately own the vision and relentlessly drive to completion.
Front row from left to right: Michael Weinshel, Wesley Johnson, Joseph Cote, Samuel Cotterell, David Costello, Billy Atkinson, Thomas Sadler, and Mark Harris.

Middle row from left to right: Gaylen Hansen, Kathleen Smith, Leonard Sanchez, Claireen Herting, Donald Burkett, Viki Windfeldt, Robert Pearson, Sally Flowers, and Walter Davenport.

Back row from left to right: Kent Smoll, Carlos Johnson, John Katzenmeyer, Noel Allen, Michael Skinner, Harry Parsons, and Andrew DuBoff.
# 2007 - 2008 Board of Director

## OFFICERS
- **Samuel K. Cotterell**, CPA (ID)
  - Chair
- **Thomas J. Sadler**, CPA (WA)
  - Vice Chair
- **Wesley P. Johnson**, CPA (MD)
  - Past Chair
- **Billy M. Atkinson**, CPA (TX)
  - Director-at-Large/Secretary
- **Walter C. Davenport**, CPA (NC)
  - Director-at-Large/Treasurer
- **Andrew L. DuBoff**, CPA (NJ)
  - Director-at-Large
- **Gaylen R. Hansen**, CPA (CO)
  - Director-at-Large
- **Mark P. Harris**, CPA (LA)
  - Director-at-Large
- **John E. Katzenmeyer**, CPA (OH)
  - Director-at-Large
- **Robert A. Pearson**, CPA (MO)
  - Director-at-Large
- **Leonard R. Sanchez**, CPA (NM)
  - Director-at-Large
- **Kathleen J. Smith**, CPA, Esq. (NE)
  - Director-at-Large

## REGIONAL DIRECTORS
- **Donald H. Burkett**, CPA (SC)
  - Middle Atlantic Regional Director
- **Sally Flowers** (CA)
  - Pacific Regional Director
- **Claireen Herting**, CPA, JD (IL)
  - Great Lakes Regional Director
- **Carlos E. Johnson**, CPA (OK)
  - Southwest Regional Director
- **Harry O. Parsons**, CPA (NV)
  - Mountain Regional Director
- **Michael K. Skinner**, CPA (GA)
  - Southeast Regional Director
- **E. Kent Smoll**, CPA (KS)
  - Central Regional Director
- **Michael Weinshel**, CPA (CT)
  - Northeast Regional Director

## EXECUTIVE DIRECTORS’ LIAISON
- **Viki A. Windfeldt** (NV)
Professional Credential Services, Inc. (PCS) was established in 1998 as a wholly-owned for-profit subsidiary of the National Association of State Boards of Accountancy (NASBA) to further expand service opportunities developed through NASBA’s CPA Examination Services Division into non-accounting disciplines. PCS focuses on providing examination development, examination administration and licensure and certification services to state, national and international organizations responsible for the regulation and management of occupations and professions.

PCS currently provides the delivery of services in the professions of engineering, land surveying, geology, landscape architecture, tattooing and body piercing, cosmetology, barbering, chiropractic, nursing home administration, funeral services, occupational therapy, professional planning, nursing, pharmacy, waste water management, veterinary medicine, psychology, auctioneering, fire protection, radiology, interior design and podiatry.
Staff Directors and Managers

Alfonzo Alexander  
Chief Relationship Officer (CRO)  
Vice President of Development, Center for the Public Trust

Lisa Axisa  
Director, ERB and Special Initiatives  
Executive Director/Vice President, Center for the Public Trust

Ed Barnicott  
Chief Technology Officer (CTO)

Pam Bergeron  
Manager, Software Development

Tim Berry, PMP  
Sr. Project Manager

Linda Biek, CPA  
Director, Governmental, International and Professional Relationships

Ken Bishop  
President, PCS Examination Operations  
Sr. Vice President, CPA Examination Services and National Candidate Database Operations

Andrea Bledsoe  
Vice President/Chief Operating Officer (COO), Director, PCS Operations

Carla Blake, CPA  
Manager, Sponsor Services

Michael Bryant, CPA  
Chief Financial Officer (CFO)

Maria Caldwell, Esq.  
General Counsel  
Director, Business Development

Bridget Candler  
Manager, Instructional Design Review

Dean Carroll  
Director, Infrastructure and Security

Joy Conkwright  
Sr. Project Manager

Matt Cook  
Manager, PCS Operations

Lisa Dampf  
Manager, Benefits

Sandra Davidson, CPA  
Manager, Licensee Services

Stacey Douglas  
Director, Software Development

Yordanos Dumez, CPA  
Director, Compliance Services

John Fields  
Sr. Project Manager

Jill Gordon  
Manager, Tradeshaw

Meritta Grant  
Manager, Accounts Payable

Cassandra Gray  
Manager, Communications

Mary Green  
Manager, Business System Support

Stacey Grooms, Esq.  
Manager, Regulatory Affairs

Louise Dratler Haberman  
Director, Information and Research

Denise Hanley  
Chief Information Officer (CIO)

Patricia Hartman  
Director, CPA Examination Services and National Candidate Database Operations

Adam Herjeczki  
Manager, Special Accommodations

Allan Hicks  
Manager, PCS Application Processing

Karen Hill  
Director, Project Management Office

Cheryl Hutchings, CPA  
PCS Controller

Karen Johnson, CPA  
Manager, Payroll Compliance

Randy Jung  
Manager, Operations - Guam Computer Testing Center

Linda Kellner  
Director, PCS Exam Development

Thomas Kenny  
Director, Communications

Mary Lane  
Manager, Facilities

Christy Lewellen  
Manager, Human Resources

Kathy Love  
Manager, CPA Examinations State Coordinators

Angel Lunn  
Chief People Officer (CPO)

Joe Manzon  
Manager, Guam Computer Testing Center

Chris Mays  
Manager, National Candidate Database Operations

Michelle Miller  
Manager, Software Development

Rachel Nelson  
Manager, Candidate Services

Denny Phillips  
Manager, Print and Delivery Operations

Robbin Pittarelli  
Manager, National Business

Francine Rananto  
Manager, PCS Cosmetology

Rebecca Rodriguez  
Manager, Business Development

John Roland  
Manager, CPA Operations Accounting

Anne Russell  
Manager, PCS Facilities

Morgan Scheel  
Manager, Wall Certificate Service

Vanessa Taylor  
Manager, Compliance

Butch Thomas  
Manager, Software Development

Penny Vernon  
Manager, Candidate Care

Troy Walker, CPA  
Controller NASBA and Chief Financial Officer (CFO) PCS

Jan Winslett  
Director, Quality Assurance

Andrew Wolford  
Manager, Lotus Notes Administrator & Support Services
Year in Review

There are no speed limits on the road to excellence.
- Unknown
State boards have long understood the public need to have CPAs who are able to practice in multiple states, but the road to achieve true mobility was not obvious. With the evolution of the Uniform Accountancy Act (UAA), the path became clearer. In November 2006, NASBA created the CPA Mobility Task Force to pursue the implementation of mobility in accordance with the revised UAA. At that time, only the states of Ohio, Virginia, Wisconsin and Missouri had implemented the mobility concept expressed in the UAA provisions. While some states were trying to simplify their procedures for granting reciprocal licenses, the new UAA called for the CPA to have a single license with practice privileges in other states and recognize the authority of each state board where he or she practiced.

Since 2006, the mobility effort has continued to gain momentum. By the end of 2007, 11 states had adopted mobility through the provisions of Sections 7, 14 and 23 of the UAA. This year saw 20 additional states having passed mobility legislation for a total of 31 states. Fifteen states have mobility bills written for filing in 2009 and the Mobility Task Force is forecasting a total of 42 to 45 states by the end of the 2009 legislative calendar.

“A true collaborative effort among the parties made the difference in increased implementation efforts and successes,” said Ken Bishop, NASBA Senior Vice President, referring to the joint efforts of NASBA, the AICPA, CPA Society Executives Association and the Accountants Coalition. Resources have been devoted to Regional CPA/SEA meetings, and presentations were made at NASBA Regional Meetings to update the state boards on the mobility legislation’s progress and inform members of the vast array of resources available to them to help pass such legislation. NASBA leadership has worked tirelessly, visiting boards and presenting the UAA provisions as the right solution to the issue of CPA mobility.

Most states have taken advantage of the legal services of Gibson, Dunn & Crutcher LLP to assist with draft legislation and/or legal reviews. “The assistance we received in drafting the legislation was instrumental in its passage in the state of New Mexico. I would encourage all boards to take advantage of the many resources available,” asserted Leonard Sanchez, New Mexico Board member.

On October 6, 2008, the U.S. Treasury Department’s Advisory Committee on the Auditing Profession (ACAP) released its final report. In the report, ACAP encouraged all states to
adopt the mobility provisions of the UAA by December 31, 2010. “In order for our capital market system to continue to prosper and grow, NASBA recognized the need to ensure that an efficient, effective mobility system is in place that will allow CPAs and their firms, as professional service providers, to serve the needs of American businesses, where ever they are located,” testified NASBA President David Costello in a written submission to ACAP. CPA practice mobility will allow licensees to practice freely, but responsibly across state borders while remaining accountable to the authority of state boards of accountancy. State boards have answered the call to fulfill their regulatory responsibility by adopting the premise of “No notice, No fee and No escape.”

**ALD**

The Accountancy Licensee Database (ALD) began with four states and today has 18 states contributing information to the database. Nine additional states are committed to participate this year, equaling 27 states in all.

Heralded as the gateway for Mobility, the ALD is a centralized source of accurate and current information on individual and firm licenses across the country. It will make licensure, regulation and practice more efficient and facilitate easy communication among boards, aid in the state boards’ enforcement efforts and recognize substantial equivalency.

The Treasury Department’s ACAP Committee saw the need for such a system. In the final report, it recommended that the states participate in NASBA’s Accountancy Licensee Database (ALD) as a mechanism to assist in maintaining appropriate oversight of CPAs throughout the country, regardless of where they practice, and that appropriate authorities interpret federal and state privacy regulations to facilitate implementation of the ALD.

State boards understand the importance of the ALD and how it will assist them in carrying out their responsibility for public protection. “With the achievement of mobility, the ALD is a vital tool for monitoring licensees throughout the country. It only makes sense for every board of accountancy to participate in the ALD,” said Nevada Executive Director Viki Windfeldt.

The ALD Task Force, chaired by Nebraska Executive Director Dan Sweetwood and NASBA staff have devoted the much needed resources to assist boards with ALD participation. “We have been readily available to assist all boards of accountancy with any technical, legal or legislative issues,” said NASBA Executive Vice President Joseph T. Cote. “The task force maintains that there are no obstacles that cannot be overcome to have every board participate.”

Pictured are state governors signing mobility legislation in the states of Kentucky, Washington and West Virginia.

**Kentucky**
Seated: Governor Steve Beshear. Standing, left to right: Penny Gold, Lee Graza, Lindy Kams and Richard Carroll.

**Washington**
Seated: Governor Christine Gregoire. Standing, left to right: Steve Conway, Tony Laliberte, Rich Jones, Diane Bren, Ed Jolicoeur, Bea Nahon, Lisa Thatcher, Tom Sadler and Rick Sweeney

**West Virginia**
Seated: Governor Joe Manchin. Standing, left to right: Virgil Helton, Norman Mostie, Louis Southworth, Pat Moyers, Jack Badkin, David Hill and Jack Rossi.
November 2007
After over two years of collaboration, study and review, NASBA Education Committee releases exposure draft of UAA Model Education Rules 5-1 and 5-2.

December 2007

January 2008
NASBA Regional Directors take on the challenge of making implementation of the Accountancy Licensee Database a top priority for all the member boards.

May 2008
Representatives from 47 State Boards attend NASBA’s Conference on the State of the Examination, held in Dallas, TX on May 19.

June 2008
NASBA Eastern Regional Meeting held June 11-13 in Asheville, NC, and NASBA Western Regional Meeting held in Newport Beach, CA, June 18-20. In total, 470 people attended the meetings.

July 2008
NASBA Board agrees to the development of a business plan for delivery of the Uniform CPA Examination outside the United States.
February 2008
The Department of Housing and Urban Development proposes the establishment of a roster of approved independent public accountants — and NASBA responds.

March 2008
The NASBA 26th Annual Conference for Executive Directors and 13th Annual Conference for State Board Legal Counsel are held in Austin, TX. Mobility was the most frequently addressed topic.

April 2008
NASBA/AICPA International Qualifications Appraisal Board renews the tri-party mutual recognition agreement with the Canadian Institute of Chartered Accountants and the Instituto Mexicano de Contadores Públicos at signing ceremony attended by NASBA Board of Directors and dignitaries from three countries.

August 2008
NASBA and AICPA leaders hold summit meeting in New York City on August 8 and agree to continue to work cooperatively for adoption of UAA Section 23 legislation in all states.

September 2008
NASBA holds first conference for State Board Peer Review Oversight Committee members on September 22 in Nashville, TN.

October 2008
NASBA Center for the Public Trust co-sponsors a conference on “Developing and Sustaining an Ethical Business Climate” with the University of Texas McCombs School of Business in Austin, TX, on October 16.
A Growing Myriad of Regulatory Requirements

The U.S. state boards of accountancy, NASBA’s member boards, represent more than 600,000 accountants in 55 jurisdictions, thereby collectively ranking them as the largest accounting regulatory body in the world. It is essential that this body, whose members are mandated to protect the public interest, play a proportionate role in the deliberations, debates and determinations that influence the consideration and setting of international accounting standards. To that end, it is incumbent upon NASBA to raise our visibility in the international arena, to enlighten and educate as to the roles we play in setting and enforcing standards and to become a stronger influence in the field of international regulation.

Most jurisdictions regulate the practice of accounting through self-regulation, with or without an additional umbrella of government oversight. The U.S. vests the regulatory authority with the individual states but superimposes a level of government oversight through the SEC/PCAOB. Similarly, the EU/EC recognizes the regulatory systems of individual member countries but superimposes an EU-based regulatory system. Furthermore, professional organizations participating as self-regulators in some countries further increase the complexity of this system through their programs and sub-organizations.

The increased mobility of the accounting profession subjects accountants to a growing myriad of regulatory requirements and standards. At the present time, the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) have become the two primary international private-sector standard-setters. The mutual goal is the development of a common set of high quality global standards. With state boards adopting FASB standards, the U.S. Financial Accounting Standards Board (FASB) has been the primary standard-setter in the U.S. FASB is subject to direct oversight by the SEC; however, there is no similar governmental oversight of the IASB. Also, FASB is financed entirely by the fees from SEC registrants as established by the Sarbanes-Oxley Act as opposed to 35% of the IASB funding being provided annually by the Big Four accounting firms.

As we move forward in this brave new world, the first challenge is to raise our profile and significance in the eyes of the statutory regulators in the international arena. We should begin to lay the groundwork for the process of changing their understanding of the roles of the state boards of accountancy. With that plan in motion during 2007-2008, NASBA introduced the Forum of International Accountancy Regulators in Boston, Massachusetts; the establishment of a new NASBA committee, to analyze strategic elements of an international accountancy regulatory system; and the creation of a professional staff position (Director, Governmental, International and Professional Relationships) within NASBA to assist with the cultivation of meaningful international relationships.
Understanding the current regulatory structures that influence financial activities throughout the world is a necessary component of building a system which protects the global public interest. Challenges facing regulators range from the impact of adopting International Financial Reporting Standards (IFRS), to the complexities of disciplining accountants from other jurisdictions, to gaining perspective on the dilemmas facing regulators throughout the world.

On October 28-30, 2008, international accounting and auditing regulators will join together to discuss constructing an effective system of regulation and enforcement. The Forum of International Accountancy Regulators will feature formal presentations, breakout sessions and networking opportunities.

Based on what is learned at the forum, NASBA intends to begin a journey towards unifying the voice of accountancy regulators from around the world and developing an alliance that will provide significant influence on ethics, professional practice and consumer confidence in the global practice of accounting.

The chart above reflects that a majority of states currently reference the AICPA Code of Professional Conduct in state law/rules and, consequently, as of May 18, 2008, accept the IASB as a recognized standard setter for financial accounting and reporting principles.

- Indirect reference to IASB - 57%
- Direct reference to IASB - 4%
- Unsure of status - 22%

FORUM PARTICIPANTS

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The NASBA Center for the Public Trust (CPT) continued on the road to success during the 2007-2008 fiscal year. CPT implemented a new program of presenting the Being a Difference Awards to recipients in their respective communities. The goal of this program is to provide family, friends and colleagues of the recipients an opportunity to share and participate in the award presentation. The Awards honor those practicing high standards of social responsibility and ethical leadership. Recipients do not simply aspire to make a difference: They are a difference in their circumstances by embodying the very best in principled behavior in the face of difficult challenges. By demonstrating innovative responses to ethical challenges, communities and individuals are inspired and motivated to emulate similar behavior.

During 2007-2008, CPT bestowed three awards in New York, NY, Nashville, TN and Durham, NC.

TAMMY MORREALE
In 2006, PwC instituted a month-long focus on community service. Ms. Morreale lead the effort, called 29k/30, which represented 29,000 people volunteering over a 30-day period. She directs and implements these programs and serves as a spokesperson for ethics and corporate responsibility. The program has now evolved into 1*/30,000, representing the idea that one individual can make a difference, but 30,000 people, working as a team, can inspire change. Expecting twins, Ms. Morreale traveled from Florida to receive the CPT Being a Difference Award on November 6, 2007 at the PricewaterhouseCoopers headquarters in mid-town Manhattan.

RICHARD COWART, ESQ.
Mr. Cowart is the head of the Health/Public Policy Department and a member of the Board of Directors of Baker Donelson Bearman Caldwell & Berkowitz, PC. Mr. Cowart is regarded by his colleagues as the ethical rudder of his firm and under his leadership, the firm has responded to national crises, such as Hurricane Katrina. He received his award at the offices of Baker Donelson on February 13, 2008. More than 80 friends, family and business associates attended this event held in Nashville, TN.

NATHAN GARRETT CPA, ESQ.
Mr. Garrett, CPA, attorney and educator, has served as president of NASBA, Chair of the board of North Carolina Mutual Life Insurance Company, Chair of the board of trustees of Fayetteville State University and as a trustee of Duke University. A past chair of NASBA, Mr. Garrett has played a vital role in the Civil Rights Movement and has affected change in the hiring and advancement of minorities. Surrounded by more than 100 friends, family members, NASBA activists and business associates, Mr. Garrett received his award on May 13, 2008 at the offices of the North Carolina Mutual Life Insurance Company in Durham, NC.

EXPANDING COMMUNICATIONS
In the summer of 2008, the CPT distributed its first issue of a quarterly newsletter, Ethics Matters (EM). Along with providing an update on the CPT’s activities, EM also features an article on ethics reprinted from an outside source and highlights “Good News” stories.

October 2008 also welcomed the launch of the new CPT Web site. Redesigned to improve functionality, the site features a new look and many more tabs to allow users additional facility in navigating the information provided.
Programs &

The high road to service is traveled with integrity and understanding. People don’t care how much we know until they know how much we care.
- Unknown
Programs and Services

Celebrating yet another year of achievement, NASBA continues to provide benefits to member boards through its array of programs and services. New programs were launched and old programs were retooled resulting in a wide range of offerings for member boards, CPA Examination candidates, the accounting profession and the public.

■ CPA EXAMINATION SERVICES

NASBA’s flagship program, CPA Examination Services (CPAES), provides boards of accountancy with a comprehensive array of services related to the Uniform CPA Examination. A few of these services include application processing, credential evaluations and score reporting. Outsourcing these services to the experienced professionals at NASBA enables boards of accountancy to provide their candidates with a positive examination experience while remaining focused on enforcement and other critical functions.

The National Candidate Database (Gateway) is a database of CPA candidate information created to help boards of accountancy protect the personal data provided by candidates during the application and examination processes. As a central repository for all CPA Examination candidate information, the Gateway acts as a national tracking system for CPA Examination candidates. With the ability to track a candidate’s history, from initial application to grading of the examination, the Gateway is a powerful tool for managing testing information.

NASBA’s Guam Computer Testing Center administers the CPA Examination and other miscellaneous exams including admissions exams, certification exams and the GRE to international candidates (primarily from Japan and Korea). Because of the center’s prime location, international candidates travel to it to take these exams.

■ INTERNATIONAL QUALIFICATION EXAMINATION

CPAES offers the International Qualification Examination (IQEX) to qualifying candidates each year. The purpose of IQEX is to facilitate the U.S. CPA qualification process for accounting professionals from other countries whose professional bodies have entered into mutual recognition agreements with NASBA and the American Institute of Certified Public Accountants (AICPA). These agreements are recommended to the states for their adoption. Agreements have been established with the Canadian Institute of Chartered Accountants, Instituto Mexicano de Contadores Publicos, Institute of Chartered Accountants in Australia, CPA Australia and the Institute of Chartered Accountants in Ireland.
PROFESSIONAL CREDENTIAL SERVICES, INC. (PCS)

COSMETOLOGY
PCS partners with the National-Interstate Council of State Boards of Cosmetology, Inc. (NIC) to provide examination, certification and licensure services to state boards of cosmetology and barbering. As a partner of NIC, PCS enjoys the unique position to offer these services to all boards of cosmetology and barbering with a personal knowledge of the profession. Some of the services provided are application processing, examination administration and test development. Outsourcing these services to PCS allows state boards to provide their candidates with a positive examination experience while remaining focused on other critical functions.

ENGINEERING
PCS provides examination and licensing services to state boards of engineers and land surveyors. These services include application processing, eligibility processing, paper/pencil examination administration, score reporting and licensing.

TEST DEVELOPMENT
Test development is a service provided by PCS that helps clients develop examinations by providing task and question analysis, writing examination questions, assembling the test, etc. Test development is a complex service requiring extensive knowledge of testing standards.

MISCELLANEOUS EXAMS
PCS contracts include a variety of miscellaneous exams for which it provides examination and licensing services including application processing, eligibility processing, paper/pencil examination administration, score reporting and licensing.

WALL CERTIFICATE SERVICE
NASBA’s Wall Certificate Service is designed to enhance the quality of licensing certificates of professional and licensing agencies by offering creative and professional design options. Offering superior custom design, production and processing, this service efficiently produces professional wall certificates state board members can be proud to present. Other options include state-of-the-art printing, custom framing and distribution.
Through the combined efforts of NASBA departments, the idea of a comprehensive Web site to cross-reference new and existing NASBA services evolved into a new approach for connecting NASBA with both its member boards and the professionals they license. Since the launch of NASBAtools.com, the site has received the Web Star of the Week award from WebCPA. NASBAtools incorporates services into three main areas: Licensure, CPE Compliance and CPE Sponsors.

**ACCOUNTANCY LICENSING LIBRARY (ALL)**
The Accountancy Licensing Library (ALL) is an online resource that provides regularly-updated, reliable CPA licensing information for all 55 state boards of accountancy. ALL allows state boards, candidates, licensees and firms to gather comprehensible CPA licensing information from one place. Some of ALL’s features include up-to-date licensing requirements, step-by-step licensing instructions and procedures, official state board forms converted into writable format, email alerts of regulatory changes and a research tool for narrowing search criteria.

**ACCOUNTANCY LICENSEE DATABASE (ALD)**
The Accountancy Licensee Database (ALD) is a database of licensee information provided by boards of accountancy. ALD serves as a centralized repository of licensee information on CPAs and firms, and simplifies the licensure verification process.

**LICENSURE SERVICES**
NASBA’s licensing programs comprise a suite of à la carte services provided to state boards of accountancy and other professions working with PCS. These programs include application processing, eligibility determination, score reporting, education evaluations, etc. By outsourcing these services to NASBA, state boards are able to provide their applicants and licensees with a positive licensing experience while remaining focused on enforcement and other critical regulatory functions.
CreditNet is an evaluation service provided by NASBA to boards of accountancy. This service involves evaluating the education, experience and examination results of a candidate or licensee against the Uniform Accountancy Act’s requirements and other regulations as requested by a board of accountancy. Many boards of accountancy use this service to assist with evaluations for reciprocity and/or granting temporary licenses/permits. With the recent surge in the adoption of mobility legislation by numerous states, CreditNet is poised to provide individual substantial equivalency evaluations for practitioners nationwide.

National Registry of CPE Sponsors & Quality Assurance Service (QAS)
The National Registry of CPE Sponsors (Registry) and Quality Assurance Service (QAS) programs recognize and highlight continuing professional education (CPE) sponsors that provide CPE programs in accordance with nationally recognized standards developed jointly by NASBA, boards of accountancy and the AICPA. Because of the respected standards and processes for approval, many boards and associations accept CPE course credits earned from Registry and/or QAS sponsors, while some boards will only accept credits granted by Registry and/or QAS sponsors.

CPEmarket is a convenient online tool that allows CPAs and other professionals to quickly and easily search for continuing education credits that meet the requirements to maintain and/or renew professional licenses. This database boasts more than 4,000 CPE courses searchable by keyword, date, location, credits and more. In addition, state CPE requirements are provided including renewal date, reporting period, required hours, credit limits, state policies, etc. Participating providers of course information include Registry and QAS sponsors, other CPE course providers and Pilot Test (free CPE) course providers.

CPetracking is a robust online system that help boards of accountancy, individuals and firms manage CPE compliance. CPetracking maintains CPE credit information entered by the subscriber or firm and compares that information with current requirements of state boards of accountancy and other organizations (such as the AICPA). The user is then able to view his/her compliance status at-a-glance and generate compliance reports to send directly to a reporting agency.
Three outstanding educational events were co-sponsored by the NASBA Center for the Public Trust (CPT) during the 2007-2008 year. New York, NY, Nashville, TN, and Austin, TX were the conference city hosts where more than 500 participants earned CPE credit.

“Ensuring Integrity: The Second Annual Ethics Conference” was co-sponsored by CPT and the Baruch College Robert Zicklin Institute for Corporate Integrity. Held on December 6, 2007, at the Baruch Campus in New York City, approximately 200 individuals attended the conference. With representatives from the SEC, PCAOB, Auditing Standards Board and individuals from large and mid-sized firms as speakers, a comprehensive overview was provided and topics such as International Financial Reporting Standards (as published by the International Auditing and Assurance Standards Board), globalization and standards for smaller audits were discussed. “Trust in the U.S. financial system relies on auditors,” said Larry Bridgesmith, CPT Board member, in summarizing the conference. “Culture is what we tolerate as professionals,” he observed. “We can make a difference by being a difference.”

On February 1, 2008, the “CEO Leadership” Forum co-hosted by the CPT and the Vanderbilt Owen Graduate School of Management provided insight into methods used by ethical leaders to promote a principled work place. Nationally known moderator Jack Faris led three high-powered panelists through a thought-provoking dialogue. As questions from the audience were discussed, one common theme emerged: Ethical reactions to informal decisions are absorbed by those around you all of the time—by your children, co-workers and staff. Ethical discussions and behaviors are not just for formal education and major decisions, but a way of life. As Cordia Harrington, CEO of the TN Bun Company, noted, “How do you know you’re winning, if you’re not playing by the rules?”

The NASBA CPT, University of Texas at Austin McCombs School of Business and the Society of Corporate Compliance and Ethics co-sponsored “Developing and Sustaining an Ethical Business Culture” on October 16, 2008. Developed to help participants know the right steps to ensure their companies are conducting business in the most ethical manner, the conference featured speaker was Cynthia Cooper, author of the best-selling book, The Journey of a Corporate Whistleblower—Extraordinary Circumstances. Ms. Cooper shared her account of how she and her team identified the corporate fraud at WorldCom.

CPT announced the close of its Founding Members program in 2008. This is a unique opportunity for individuals to support the important work of CPT. Founding membership will be available until the end of 2008; yet those who become Founding Members will remain in this special category and will always be recognized as early supporters. Founding Members are listed on the CPT Web site. To further recognize this special group, a “Founding Member,” pin was created. The Founding Member pin will be sent to all who donate during our Founding Member Campaign and those who have already become Founding Members.

The Trust Society is a group of industry-leading companies, organizations and institutions. Trust Society Members have committed to supporting the activities of the CPT. Through their involvement in CPT:

- Trust Society Members are recognized globally as leaders in business ethics and ethical leadership
- Trust Society Members help raise the standard of ethical behavior of businesses globally
- Trust Society Members increase the understanding and use of ethical business practices within their companies
- Trust Society Members are part of a network of industry-leading companies, organizations and institutions
- Trust Society Members help restore the hope, confidence and trust the public has in business today

SunTrust Banks, Inc., headquartered in Atlanta, Georgia, was the first Trust Society member. SunTrust is one of the nation’s largest banking organizations, serving a broad range of consumer, commercial, corporate and institutional clients. The company operates an extensive distribution network primarily in Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia and the District of Columbia. The Accountants Coalition, an organization comprised of representatives of the big four accounting firms which focuses on major legislative and regulatory projects and Moss Adams LLP, the 12th largest accounting and consulting firm in the United States and the largest firm headquartered in the West, are also Trust Society members.
Financial

It is a rough road that leads to heights of glory.

-Seneca
National Association of State Boards of Accountancy, Inc.
And Related Organizations

Consolidated Financial Statements

July 31, 2008 and 2007
REPORT OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
AND OF CHIEF FINANCIAL OFFICER

September 23, 2008

We, David A. Costello, CPA, President and Chief Executive Officer and Michael R. Bryant, 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, 2008 and 2007, including the Notes thereto, as reported on by NASBA’s independent auditors, Lattimore Black Morgan & Cain, PC, such financial statements do not contain an untrue statement of a material fact as of the date hereof nor do such financial statements fail to state a material fact necessary to make the financial statements, in light of the circumstances under which they were prepared, not misleading.

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

David A. Costello, CPA
President and Chief Executive Officer

Michael R. Bryant, CPA
Chief Financial Officer
REPORT OF MANAGEMENT

The management of the National Association of State Boards of Accountancy, Inc. and Related Organizations 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 National Association of State Boards of Accountancy, Inc. and Related Organizations are free of any conflicts of interest.

David A. Costello, CPA
President and Chief Executive Officer

Joseph T. Cote, CPA
Chief Operating Officer

Michael R. Bryant, CPA
Chief Financial Officer

Troy A. Walker, CPA
Controller
Management's Discussion and Analysis

Fiscal 2008 was another exciting year for NASBA. Services provided for the CPA examination, now in the fourth full year in the computer-based testing (CBT) environment, continued and section volumes increased over the prior fiscal year. The total sections processed into the National Candidate Database, the gateway to the computerized examination, were 254,000, an increase of 5.2% from 2007.

Also in the current year, NASBA expanded the services provided to boards, candidates, and professionals. New services were developed to assist boards and candidates for the CPA examination. The CPE Expo, scheduled for September 2009, will provide a forum for delivery of the highest quality CPE courses from CPE Registry sponsors. NASBA also spearheaded mobility efforts within the accounting profession and expanded the scope of the Accountancy Licensee Database (ALD).

Professional Credential Services, Inc. (PCS), a wholly-owned, for-profit subsidiary of NASBA, continues to grow its services to non-accounting related entities in the areas of test development, administration, and licensing activities through the addition of new clients and an increase in the types of services provided.

Program Revenues

Total consolidated revenue in 2008 was $28.2 million compared to $24.5 million in 2007. This is an increase of 15.1% from the prior year. The following table compares operating revenue by program for 2008 and 2007.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination related</td>
<td>24.8</td>
<td>21.4</td>
<td>15.3%</td>
</tr>
<tr>
<td>Other programs</td>
<td>3.0</td>
<td>2.8</td>
<td>7.1%</td>
</tr>
<tr>
<td>Member dues and other revenue</td>
<td>0.4</td>
<td>0.3</td>
<td>33.3%</td>
</tr>
<tr>
<td>Total</td>
<td>28.2</td>
<td>24.5</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

Examination related

The following table compares the components of examination related program revenues for 2008 and 2007.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPA Examination Services</td>
<td>10.5</td>
<td>9.1</td>
<td>15.4%</td>
</tr>
<tr>
<td>PCS</td>
<td>6.2</td>
<td>5.7</td>
<td>8.6%</td>
</tr>
<tr>
<td>CBT Contract Services</td>
<td>6.2</td>
<td>4.7</td>
<td>31.9%</td>
</tr>
<tr>
<td>Guerrn Test Center</td>
<td>1.0</td>
<td>0.9</td>
<td>11.1%</td>
</tr>
<tr>
<td>Other</td>
<td>0.9</td>
<td>1.0</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Total</td>
<td>24.8</td>
<td>21.4</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

Revenue for both CPA Examination Services and CBT Contract Services increased over the prior year as a result of continuing growth in the number of CPA examination candidates and related sections for which they apply. In addition, an increase in the fee per section for the National Candidate Database contributed to the increase in revenue for CBT Contract Services.

PCS continues to sustain healthy annual revenue growth. During 2008, eight new contracts were signed along with the renewal of four other contracts. Along with the additional revenue from new services contracted during 2008, a full year of providing services under contracts signed in 2007 helped contribute to the overall increase in revenue.

Other programs

Revenue from other programs, which consists primarily of licensing and certification services, increased as a result of additional licensing candidates processed and increased sales for the Accountancy Licensing Library subscription service.
Member dues and other revenue
The increase in revenue from the prior year relates to revenue from conference management services and other communications activities.

Program Expenses
Total consolidated operating expenses were $27.2 million in 2008 compared to $23.7 million in 2007. This represents an increase of $3.5 million, or 14.8%. The following table compares operating expenses by program for 2008 and 2007:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination related</td>
<td>$22.6</td>
<td>$19.8</td>
<td>14.1%</td>
</tr>
<tr>
<td>Other programs</td>
<td>2.7</td>
<td>2.5</td>
<td>8.0%</td>
</tr>
<tr>
<td>Communications</td>
<td>1.9</td>
<td>1.4</td>
<td>35.7%</td>
</tr>
<tr>
<td>Total</td>
<td>$27.2</td>
<td>$23.7</td>
<td>14.8%</td>
</tr>
</tbody>
</table>

Examination related program expenses increased by 14.1% in 2008 over the previous year. Much of the increase is the result of increased personnel costs incurred in 2008 as compared to 2007 related to technology-intensive endeavors. In addition, PCS examination services costs increased due to the addition of the new contracts.

The increase in expenses for communications is attributable to inflationary pressures on travel costs, an increased level of committee activity and a special examination conference held in May 2008 which had no counterpart in the prior year.

Expense variations for 2008 from 2007 amounts by caption are presented in the following table:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination program costs</td>
<td>$5.0</td>
<td>$4.7</td>
<td>6.4%</td>
</tr>
<tr>
<td>Salaries and related costs</td>
<td>14.7</td>
<td>12.0</td>
<td>22.5%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>1.3</td>
<td>1.1</td>
<td>18.2%</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>1.9</td>
<td>1.5</td>
<td>26.7%</td>
</tr>
<tr>
<td>Other captions</td>
<td>4.3</td>
<td>4.4</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Total</td>
<td>$27.2</td>
<td>$23.7</td>
<td>14.8%</td>
</tr>
</tbody>
</table>

The reasons for the majority of these increases are explained above in the discussion of examination related program expenses (examination program costs and salaries and related costs) and in communications (travel and meetings). Occupancy related expenses increased primarily due to the lease signed in the latter part of 2007 for an additional floor of space in the Nashville office building.

Other income
In addition to operating revenues, NASBA had income of $1.6 million resulting from the complete release of the outstanding debt with a CBT contract partner in resolution of an outstanding contract issue.

Investment income (loss)
Total investment loss in 2008 was $0.7 million. This is a decrease of $2.0 million from the investment income reported for 2007. The decline in the financial markets, which began in the fourth quarter of calendar 2007, resulted in a net loss on investments of $1.4 million in 2008. This is compared to a net gain in 2007 of $0.6 million. In 2008, total interest and dividends from both long-term investments and short-term investments of operating funds equaled approximately $0.8 million, which was approximately the same as the prior year.
Cash Flow and Financial Position
Cash provided by operating activities was $4.9 million in 2008 as compared to $1.9 million in 2007. Cash used in investing activities was $1.4 million in 2008 as compared to $2.1 million in 2007. As a result of these activities, net cash increased by $3.5 million in 2008 compared to a decrease of $0.3 million in 2007. In response to the market volatility during early 2008, NASBA retained maturing CD’s in operating cash. NASBA and its related organizations are strongly funded to continue to meet operating needs while also exploring additional products and services to assist state boards.

During 2008, NASBA continued to provide solid financial results while also investing in products and services to benefit state boards in the future. Unrestricted net assets increased $1.9 million in 2008 and $2.8 million in 2007. This represents the sixth consecutive year NASBA has grown its unrestricted net assets—a decrease of $9.8 million over that time period. NASBA’s financial stability allows us to move down paths needed to enhance the effectiveness of state boards of accountancy. The future holds many changes and challenges for state boards and the profession. NASBA’s ability to serve boards through services such as ALD will be possible because of past financial results and, also, the future success of other services such as CPE Expo. Even in uncertain economic periods, NASBA has many opportunities for investments in assets and services. Financial management is focused on managing expenses and maintaining performance during such cyclical periods, but also remains open to growth if business decisions enhance the value of our organization. Financially, NASBA remains strong and committed to serving the state boards through this strength.
REPORT OF AUDIT COMMITTEE

September 23, 2008

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

The Audit Committee (the “Committee”) of the National Association of State Boards of Accountancy, Inc. for the year ended July 31, 2008, was charged by the Board of Directors with the responsibility for oversight of the annual independent audit of the consolidated financial statements.

In connection with the discharge of its responsibility,

- Prior to commencement of the year-end audit work, the Committee met via teleconference with the independent auditors to discuss (1) the overall scope and specific plans for the conduct of the audit and (2) the accounting, reporting and internal control processes and procedures of the National Association of State Boards of Accountancy, Inc., 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 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 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, 2009.

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 financial accounting, reporting and safeguarding of assets for the year ended July 31, 2008.

Respectfully submitted,

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

Harris W. Widmer, CPA, Chair, on behalf of the Members of the Committee as follows:
David P. Kassouf, CPA
Joe C. Lawrence, CPA
Rebecca L. Phillips, CPA
INDEPENDENT AUDITORS’ REPORT

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 as of July 31, 2008 and 2007, 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 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 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, 2008 and 2007, 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.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 23, 2008
# CONSOLIDATED STATEMENTS OF ACTIVITIES

For Years Ended July 31, 2008

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination related</td>
<td>$24,814,429</td>
<td>$21,411,982</td>
</tr>
<tr>
<td>Other programs</td>
<td>2,949,469</td>
<td>2,745,711</td>
</tr>
<tr>
<td>Member dues and other revenue</td>
<td>410,182</td>
<td>344,486</td>
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<tr>
<td><strong>Total program revenues</strong></td>
<td>28,174,080</td>
<td>24,502,179</td>
</tr>
<tr>
<td><strong>Program Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination related</td>
<td>22,608,000</td>
<td>19,792,759</td>
</tr>
<tr>
<td>Other programs</td>
<td>2,724,766</td>
<td>2,548,602</td>
</tr>
<tr>
<td>Communications</td>
<td>1,682,733</td>
<td>1,338,322</td>
</tr>
<tr>
<td><strong>Total program expenses</strong></td>
<td>27,015,499</td>
<td>23,679,683</td>
</tr>
<tr>
<td><strong>Excess of Program Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over Program Expenses</td>
<td>956,581</td>
<td>822,496</td>
</tr>
<tr>
<td>Income from Contract Issue</td>
<td>1,571,440</td>
<td>714,280</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before Investment Income (Loss) and Income Taxes</td>
<td>2,530,021</td>
<td>1,536,776</td>
</tr>
<tr>
<td>Investment Income (Loss)</td>
<td>(658,568)</td>
<td>1,320,373</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before Income Taxes</td>
<td>1,871,453</td>
<td>2,857,149</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>1,200</td>
<td>26,100</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,870,133</td>
<td>2,831,049</td>
<td></td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets, Beginning of Year</strong></td>
<td>12,539,546</td>
<td>9,708,497</td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets, End of Year</strong></td>
<td>$14,409,679</td>
<td>$12,539,546</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
<table>
<thead>
<tr>
<th>Year Ended: July 31, 2008</th>
<th>Examination related</th>
<th>Other programs</th>
<th>Communications</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination program costs</td>
<td>$ 4,974,930</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 4,974,930</td>
</tr>
<tr>
<td>Salaries and related costs</td>
<td>12,709,962</td>
<td>1,790,713</td>
<td>175,239</td>
<td>14,675,914</td>
</tr>
<tr>
<td>Occupancy</td>
<td>985,787</td>
<td>215,420</td>
<td>115,900</td>
<td>1,317,107</td>
</tr>
<tr>
<td>Professional fees</td>
<td>827,279</td>
<td>190,699</td>
<td>327,710</td>
<td>1,345,688</td>
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<tr>
<td>Printing and postage</td>
<td>367,621</td>
<td>56,011</td>
<td>100,442</td>
<td>523,074</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>853,020</td>
<td>97,138</td>
<td>997,914</td>
<td>1,948,072</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>886,937</td>
<td>93,284</td>
<td>50,542</td>
<td>1,030,763</td>
</tr>
<tr>
<td>Telephone</td>
<td>133,287</td>
<td>17,297</td>
<td>18,260</td>
<td>168,844</td>
</tr>
<tr>
<td>Equipment rentals</td>
<td>273,480</td>
<td>88,346</td>
<td>36,130</td>
<td>397,956</td>
</tr>
<tr>
<td>Supplies</td>
<td>156,570</td>
<td>15,691</td>
<td>18,668</td>
<td>189,929</td>
</tr>
<tr>
<td>Other</td>
<td>440,327</td>
<td>161,067</td>
<td>39,908</td>
<td>641,302</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 22,608,000</td>
<td>$ 2,724,766</td>
<td>$ 1,862,733</td>
<td>$ 27,215,499</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Ended: July 31, 2007</th>
<th>Examination related</th>
<th>Other programs</th>
<th>Communications</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination program costs</td>
<td>$ 4,693,341</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 4,693,341</td>
</tr>
<tr>
<td>Salaries and related costs</td>
<td>10,543,483</td>
<td>1,286,087</td>
<td>199,633</td>
<td>12,028,203</td>
</tr>
<tr>
<td>Occupancy</td>
<td>854,042</td>
<td>163,373</td>
<td>25,478</td>
<td>1,042,893</td>
</tr>
<tr>
<td>Professional fees</td>
<td>762,981</td>
<td>493,432</td>
<td>386,238</td>
<td>1,642,651</td>
</tr>
<tr>
<td>Printing and postage</td>
<td>326,451</td>
<td>68,414</td>
<td>59,438</td>
<td>454,303</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>683,979</td>
<td>198,766</td>
<td>586,538</td>
<td>1,469,283</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>872,448</td>
<td>61,491</td>
<td>12,617</td>
<td>946,576</td>
</tr>
<tr>
<td>Telephone</td>
<td>168,887</td>
<td>21,595</td>
<td>16,640</td>
<td>207,122</td>
</tr>
<tr>
<td>Equipment rentals</td>
<td>336,182</td>
<td>51,370</td>
<td>18,612</td>
<td>406,164</td>
</tr>
<tr>
<td>Supplies</td>
<td>126,013</td>
<td>13,456</td>
<td>8,379</td>
<td>147,848</td>
</tr>
<tr>
<td>Other</td>
<td>424,932</td>
<td>191,618</td>
<td>24,749</td>
<td>641,299</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 19,792,759</td>
<td>$ 2,548,602</td>
<td>$ 1,336,322</td>
<td>$ 23,679,683</td>
</tr>
</tbody>
</table>

See Accompanying Notes to Consolidated Financial Statements
# Consolidated Statements of Financial Position

**July 31,**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 8,531,234</td>
<td>$ 5,034,920</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>-</td>
<td>956,656</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,576,111</td>
<td>1,423,066</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>284,128</td>
<td>326,212</td>
</tr>
<tr>
<td>Deferred income taxes, net of allowance</td>
<td>135,100</td>
<td>119,700</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>10,526,673</strong></td>
<td><strong>7,862,563</strong></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>7,435,845</td>
<td>8,002,297</td>
</tr>
<tr>
<td>Deferred income taxes, net of allowance</td>
<td>230,900</td>
<td>246,300</td>
</tr>
<tr>
<td>Other</td>
<td>56,080</td>
<td>54,452</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td><strong>7,722,825</strong></td>
<td><strong>8,303,149</strong></td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,300,170</td>
<td>3,982,269</td>
<td></td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>2,491,018</td>
<td>2,529,215</td>
</tr>
<tr>
<td><strong>Net property and equipment</strong></td>
<td><strong>2,809,152</strong></td>
<td><strong>1,453,154</strong></td>
</tr>
<tr>
<td><strong>Software Development Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3,700,445</td>
<td>3,604,926</td>
<td></td>
</tr>
<tr>
<td>Less accumulated amortization</td>
<td>2,277,778</td>
<td>1,752,262</td>
</tr>
<tr>
<td><strong>Net software development costs</strong></td>
<td><strong>1,422,667</strong></td>
<td><strong>1,852,664</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>22,486,217</strong></td>
<td><strong>19,451,120</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities and Unrestricted Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$ 6,567,166</td>
<td>$ 4,626,966</td>
</tr>
<tr>
<td>Deferred examination fee revenues</td>
<td>692,764</td>
<td>628,330</td>
</tr>
<tr>
<td>Long-term debt, current portion</td>
<td>-</td>
<td>142,862</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>52,298</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>7,312,228</strong></td>
<td><strong>5,398,158</strong></td>
</tr>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>-</td>
<td>1,286,718</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>763,310</td>
<td>227,698</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td><strong>763,310</strong></td>
<td><strong>1,513,416</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>8,075,538</strong></td>
<td><strong>6,911,574</strong></td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14,409,679</td>
<td>12,539,546</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and unrestricted net assets</strong></td>
<td><strong>22,486,217</strong></td>
<td><strong>19,451,120</strong></td>
</tr>
</tbody>
</table>

See Accompanying Notes to Consolidated Financial Statements
### Operating Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in unrestricted net assets</td>
<td>$1,870,133</td>
<td>$2,831,049</td>
</tr>
<tr>
<td>Adjustments to reconcile increase in unrestricted net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization of property and equipment</td>
<td>510,247</td>
<td>433,719</td>
</tr>
<tr>
<td>Amortization of software development costs</td>
<td>520,516</td>
<td>512,857</td>
</tr>
<tr>
<td>Income from contract issue, net of cash</td>
<td>(1,428,580)</td>
<td>(714,280)</td>
</tr>
<tr>
<td>Net (gains) losses on investment securities</td>
<td>1,409,814</td>
<td>(567,567)</td>
</tr>
<tr>
<td>Reduction of deferred credit</td>
<td>(47,942)</td>
<td>-</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>-</td>
<td>3,400</td>
</tr>
<tr>
<td>Net losses on disposal of property and equipment</td>
<td>9,468</td>
<td>-</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(153,045)</td>
<td>(286,278)</td>
</tr>
<tr>
<td>Prepaid expenses and other non-current assets</td>
<td>41,556</td>
<td>(84,913)</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable, accrued expenses, and other liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,129,628</td>
<td>(362,468)</td>
<td></td>
</tr>
<tr>
<td>Deferred examination fee revenues</td>
<td>64,454</td>
<td>151,494</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>4,929,919</td>
<td>1,919,023</td>
</tr>
</tbody>
</table>

### Investing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment additions</td>
<td>(1,449,289)</td>
<td>(699,946)</td>
</tr>
<tr>
<td>Capitalized software development costs</td>
<td>(95,919)</td>
<td>(14,526)</td>
</tr>
<tr>
<td>Proceeds from disposal of fixed asset</td>
<td>-</td>
<td>4,343</td>
</tr>
<tr>
<td>Redemption (purchases) of certificates of deposit</td>
<td>956,655</td>
<td>(956,655)</td>
</tr>
<tr>
<td>Purchases of investment securities</td>
<td>(3,659,228)</td>
<td>(777,758)</td>
</tr>
<tr>
<td>Redemption of investment securities</td>
<td>2,816,176</td>
<td>320,974</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(1,429,605)</td>
<td>(2,134,568)</td>
</tr>
</tbody>
</table>

### Financing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal payments on capital leases</td>
<td>-</td>
<td>(56,035)</td>
</tr>
<tr>
<td>Net cash used by financing activities</td>
<td>-</td>
<td>(56,035)</td>
</tr>
</tbody>
</table>

### Net Increase (Decrease) in Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,496,314</td>
<td>(265,580)</td>
<td></td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents, Beginning of Year

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,034,920</td>
<td>5,300,500</td>
<td></td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents, End of Year

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8,531,234</td>
<td>$5,034,920</td>
<td></td>
</tr>
</tbody>
</table>

### Supplemental Cash Flow Information

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>-</td>
<td>1,176</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>995</td>
<td>67,502</td>
</tr>
</tbody>
</table>

### Non-cash Investing and Financing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt reduction from contract issue</td>
<td>1,428,580</td>
<td>714,280</td>
</tr>
<tr>
<td>Leasehold improvements paid by landlord</td>
<td>446,424</td>
<td>-</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 disposition in accordance with its Articles of Incorporation. The Association has a wholly-owned, for-profit subsidiary, Professional Credentialing Services, Inc. ("PCS") that offers testing, examination development, licensing and certification services to various non-accounting related professions and occupations. Also included in the Consolidated Financial Statements ("financial statements") is the NASBA Center for the Public Trust ("NCPT"), 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.

The Association's examination related activities include programs and services which facilitate boards of accountancy in fulfilling their licensing responsibilities related to the testing of applicants for the Certified Public Accountant ("CPA") license. Examination related activities also include similar programs and services of PCS.

Other programs consist of licensing and certification activities related to assisting boards of accountancy and licensees in the issuance of licenses. Similar licensing services rendered by PCS are also included. Other programs also include services to boards of accountancy and licensees related to identifying quality continuing professional education providers that meet nationally accepted standards for development, presentation, measurement and reporting of educational programs.

Communication programs provide information, facilitate discussion and determine appropriate actions related to issues that concern boards of accountancy. Also included in communication programs are the activities of NCPT.

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 are eliminated from the 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 an 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. No allowance is required at July 31, 2008 or 2007.

Prepaid expenses
Prepaid expenses consist primarily of prepaid insurance premiums, prepaid equipment maintenance contracts and payments to reserve testing facilities for future examinations.
Note 2. Significant Accounting Policies (Continued)

Investment Securities
The Association and related organizations generally invest 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. Investments are made in accordance with an investment policy approved by the Board of Directors. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Derivative financial instruments are not permitted investments under the Association’s policy except as minor components of permitted mutual fund investments. Investments 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. Repair and maintenance costs are expensed as incurred.

Software Development Costs
The Association capitalizes and amortizes certain costs associated with the development of software for internal use. The Association amortizes these costs over the shorter of the useful life of the software or the period of time that services provided under contracts utilize the internally-developed software. Amortization begins when the software is ready for its intended use.

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

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. NCPT is also exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and applicable state tax statutes. PCS accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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

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 and related organizations' activities. The value of these individuals' services is not recorded in the financial statements because such services would typically not be purchased by the Association and related organizations if they had not been provided by contribution. Meeting and travel expenses for these individuals are reimbursed by the Association and related organizations and included in the financial statements.

Delay in effective date of accounting pronouncement
In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109 ("FIN 48"). This clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Subsequently, FIN 48 was amended to be effective for fiscal years beginning after December 15, 2007 for nonpublic enterprises, and therefore the Association expects to adopt FIN 48 at the beginning of fiscal year 2009.

Note 3. Investment Securities, at fair value
Investment securities at July 31 consisted of mutual funds which primarily invested in the following:

<table>
<thead>
<tr>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury and other Federal Agency obligations</td>
<td>2,101,598</td>
</tr>
<tr>
<td>Corporate and other debt obligations</td>
<td>666,260</td>
</tr>
<tr>
<td>Equity securities</td>
<td>4,667,987</td>
</tr>
<tr>
<td>Total Investment Securities</td>
<td>7,435,845</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends, net of fees of $33,212 and $0</td>
<td>750,916</td>
</tr>
<tr>
<td>Net gains (losses) on investments</td>
<td>(1,409,504)</td>
</tr>
<tr>
<td>Total investment income (Loss)</td>
<td>(658,588)</td>
</tr>
</tbody>
</table>

Note 4. Property and Equipment
Property and equipment at July 31 consists of the following:

<table>
<thead>
<tr>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office and computer equipment</td>
<td>2,468,704</td>
</tr>
<tr>
<td>Furniture</td>
<td>1,298,141</td>
</tr>
<tr>
<td>Building and leasehold improvements</td>
<td>1,533,325</td>
</tr>
<tr>
<td>Total Property and Equipment</td>
<td>5,200,170</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(2,491,018)</td>
</tr>
<tr>
<td>Net Property and Equipment</td>
<td>2,809,152</td>
</tr>
</tbody>
</table>

Note 5. 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 CPA 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.
Note 5. Contract to Provide Examination Services (Continued)
   Under the terms of the Agreement, the Association operates and maintains 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, including development, and the costs of providing grade reporting and examination review services. The Association also collects from candidates the Prometric and AICPA fees related to the examination. These funds are held in escrow accounts in the names of the respective parties and are disbursed when services are provided. At July 31, 2008 and 2007, escrowed funds amounted to $21,463,940 and $17,756,646, 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 6. Retirement Plans and Other Postretirement Benefits
   A noncontributory defined contribution pension plan that covered all full-time employees meeting specified requirements was terminated January 1, 2007. The NASBA 401(k) Plan, previously funded solely by employee contributions, was amended effective January 1, 2007 to allow employer contributions and on January 3, 2007 the employee account balances from the terminated pension plan were transferred into the plan. Expenses related to the Association’s funding of the retirement plan amounted to approximately $268,000 for 2008 and $501,000 for 2007. The Association funded its obligation through annual contributions made after the end of the December 31 plan year. The Association pays all fees related to the plan.

The Association has made available limited postretirement medical benefits for certain management-level employees with five years of service and a minimum age of 60. At July 31, 2008 and 2007, the accumulated postretirement benefit obligation was determined by actuarial valuation to be $132,143 ($123,122 noncurrent and $9,021 current) and $94,425 ($90,840 noncurrent and $3,585 current), respectively, in the Consolidated Statements of Financial Position. The following table sets forth the components of net periodic postretirement benefit cost and the change in the benefit obligation:

<table>
<thead>
<tr>
<th>Components of net periodic cost:</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>↓ 11,919</td>
<td>↓ 7,223</td>
</tr>
<tr>
<td>Interest cost</td>
<td>5,676</td>
<td>4,650</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>3,751</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>23,154</td>
<td>8,150</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(6,762)</td>
<td>-</td>
</tr>
<tr>
<td>Net periodic postretirement benefit cost</td>
<td>37,718</td>
<td>20,023</td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>94,425</td>
<td>74,402</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>↓ 132,143</td>
<td>↓ 94,425</td>
</tr>
</tbody>
</table>

The discount rate used to value the obligation was 6.95% in 2008 and 6.25% in 2007. The assumed medical and dental cost trend rate is 7.5% declining to 4% over a period of 7 years and a constant 4%, respectively. The effect of the accumulated postretirement benefit obligation of a one percentage point change in the assumed health care cost trend rate is shown below:

<table>
<thead>
<tr>
<th>Effect of a One Percentage Point Change in Discount Rate</th>
<th>1% Increase in Rates</th>
<th>1% Decrease in Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Postretirement Benefit Obligation Effect</td>
<td>↓ (10,695)</td>
<td>(10,695)</td>
</tr>
</tbody>
</table>

2008 NASBA Annual Report
Note 6. Retirement Plans and Other Postretirement Benefits (Continued)
The obligation will be funded on a cash basis through partial payment of medical insurance plan premiums for a five-year period at each eligible employee’s retirement date. Employer contributions were $3,011 and $0 for 2008 and 2007, respectively. The following table shows actuarial projections of expected future postretirement benefit payments:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2009</td>
<td>9,021</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>13,639</td>
</tr>
<tr>
<td>Fiscal 2011</td>
<td>14,715</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>15,617</td>
</tr>
<tr>
<td>Fiscal 2013</td>
<td>9,888</td>
</tr>
<tr>
<td>Fiscal 2014 through 2018</td>
<td>38,251</td>
</tr>
</tbody>
</table>

Note 7. Lease Commitments
The Association and PCS lease office space under operating leases that expire at various dates through 2017. In July 2007, the Association amended its Nashville office lease to extend by four years the remaining six-year term on the existing leased space and to lease an additional floor for the same term. Total scheduled rent payments under these leases are amortized to rent expense on a straight-line basis over the terms of the leases. Minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2009</td>
<td>1,275,335</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>1,287,338</td>
</tr>
<tr>
<td>Fiscal 2011</td>
<td>1,233,702</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>1,207,000</td>
</tr>
<tr>
<td>Fiscal 2013</td>
<td>1,133,019</td>
</tr>
<tr>
<td>Thereafter</td>
<td>4,916,676</td>
</tr>
<tr>
<td><strong>Minimum Lease Payments</strong></td>
<td><strong>11,053,070</strong></td>
</tr>
</tbody>
</table>

Rent expense charged to operations for office space in 2008 and 2007 totaled approximately $1,317,000 and $1,043,000, respectively.

The Association leases office equipment under various operating lease arrangements. Minimum lease payments remaining for equipment leases are approximately $67,000 in fiscal 2009 and $62,000 in fiscal 2010. Expenses charged to operations under these leases in 2008 and 2007 totaled approximately $133,000 and $172,000, respectively.

Note 8. Income Taxes
Income tax expense comprises the following:

<table>
<thead>
<tr>
<th>Period</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>-</td>
<td>21,200</td>
</tr>
<tr>
<td>State</td>
<td>1,300</td>
<td>1,500</td>
</tr>
<tr>
<td>Deferred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. federal</td>
<td>4,300</td>
<td>(400)</td>
</tr>
<tr>
<td>State</td>
<td>(4,800)</td>
<td>3,800</td>
</tr>
<tr>
<td><strong>Income Tax Expense</strong></td>
<td><strong>1,300</strong></td>
<td><strong>28,100</strong></td>
</tr>
</tbody>
</table>

In 2008 and 2007, income tax expense includes a benefit of $47,800 ($40,400 federal and $7,400 state) and $100,000 ($83,100 federal and $16,900 state), respectively, from the utilization of net operating loss carryforwards.
Note 8. Income Taxes (Continued)
The actual income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income taxes as a result of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory federal income tax</td>
<td>$8,600</td>
<td>$8,200</td>
</tr>
<tr>
<td>Puerto Rico income tax, net of U.S. federal benefit</td>
<td>$4,200</td>
<td>$4,000</td>
</tr>
<tr>
<td>State income taxes, net of U.S. federal benefit</td>
<td>$1,600</td>
<td>$1,600</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>$3,800</td>
<td>$(58,500)</td>
</tr>
<tr>
<td>Other</td>
<td>$5,300</td>
<td>$6,100</td>
</tr>
<tr>
<td><strong>Income Tax Expense</strong></td>
<td>$1,500</td>
<td>$25,100</td>
</tr>
</tbody>
</table>

The deferred income tax asset consists of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred income tax asset - current</td>
<td>$152,200</td>
<td>$128,700</td>
</tr>
<tr>
<td>Deferred income tax asset - long-term</td>
<td>$252,000</td>
<td>$274,700</td>
</tr>
<tr>
<td>Valuation allowance</td>
<td>$(30,200)</td>
<td>$(22,300)</td>
</tr>
<tr>
<td><strong>Total deferred income tax asset</strong></td>
<td>$374,100</td>
<td>$377,100</td>
</tr>
<tr>
<td>Deferred income tax liability - long-term</td>
<td>$8,100</td>
<td>$11,100</td>
</tr>
<tr>
<td><strong>Net Deferred Income Tax Asset</strong></td>
<td>$(366,000)</td>
<td>$(366,000)</td>
</tr>
</tbody>
</table>

At July 31, 2008, PCS had federal and state net operating loss carryforwards of approximately $849,000 and $586,000, respectively. The carryforwards expire at various dates from July 31, 2021 through 2025 for federal tax purposes and July 31, 2009 through 2025 for state tax purposes. The valuation allowance 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 9. Income from Contract Issue
During fiscal year 2003, under the terms of the Agreement, the Association received $3,000,000 under an interest bearing line of credit from Prometic to fund the development of the National Candidate Database. Due principally to an outstanding trademark license with the purchaser of certain assets of a former Prometic-related entity, Prometic did not fully vest itself of those assets under the terms of the Agreement. As a result of this incomplete divestiture, Prometic agreed in April of 2005, to reduce the Association’s $3,000,000 liability to them by $714,280 which represented a specific reduction of the liability for the twenty-month period ended November 2005. The Association recorded the reduction of the liability as income in fiscal 2005. Prometic also agreed to reduce the liability pro rata for each month or part thereof in which the trademark issue remained outstanding beyond the date certain in the third-party license. In April of 2007, the Association determined that the situation relating to trademark license issues had not been resolved, and as a result, did not pay the annual debt payment and recorded income of $714,280 for the twenty-month period from December 2005 through July 2007.

On October 7, 2007, Prometic was granted a complete release of the remaining outstanding debt of $1,428,580 and the return of a debt payment of $1,428,580 made by the Association in April 2006. In addition, Prometic paid the Association for certain legal and administrative expenses.
Be the change you want the world to see.
- Gandhi