MOMENTUM

Founded in 1908, the National Association of State Boards of Accountancy (NASBA) has served as an association dedicated to enhancing the effectiveness of the country’s 55 state boards of accountancy for more than 100 years. As a driving force within the accounting profession, NASBA accomplishes its mission by creating a forum for accounting regulators and practitioners to address issues relevant to the viability of the accounting profession. NASBA takes pride in offering its member boards a rich portfolio of products and services, all designed to effectively aid boards in their goal to protect the public.

In addition to accounting, NASBA’s wholly-owned subsidiary, Professional Credential Services, Inc. (PCS), continues to grow as it offers services to licensing, testing and certification agencies representing 57 professions and occupations across the globe. The NASBA Center for the Public Trust (CPT) also continues to develop and positively impact the ethical climate of business by hosting training events and awards programs recognizing outstanding ethical individuals and organizations. NASBA is privileged to have established a reputation as a trusted resource in regulatory and professional services.

The 2010 Annual Report highlights NASBA’s milestones over the past year and sets the tone for the momentum the organization aims to continually pursue in the future.

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MOMENTUM

Momentum is defined as the impetus (an impelling force, increased activity) of an object or idea, or more commonly, a course of events. Momentum has direction as well as magnitude. Momentum is not merely motion, but the power residing in a moving object. It is such a multifaceted concept that some languages, such as French and Italian, lack a single term for it. Momentum is action; it is movement; it is excitement—it is NASBA.

Throughout 2009-2010, state boards and NASBA have been gaining momentum. We have been constant, positively involved, proactive in style, and timely in response to emerging issues. For NASBA, this season has been eventful and exciting—as speedy as a Japanese bullet train.

NASBA’s participation on the Blue Ribbon Panel (BRP) is unprecedented. The speed at which the BRP took off and is working, is extraordinary. It is truly exceptional that NASBA, together with the Financial Accounting Foundation (FAF) and the AICPA, comprise the sponsoring group for the BRP. The BRP, consisting of the sponsoring group representatives and 14 others from diverse backgrounds and experience including academe, banking, investment community, venture capitalists, financial statement preparers, and accounting firms, is engaged in an assessment of the continued application of generally accepted accounting principles to privately owned companies in the U.S. State boards have been engaged and involved through many committee representatives, at our regional and annual meetings, and individually. Our participation with the BRP represents the consensus of the voice of state boards. Recommendations from the BRP to the FAF are expected to be submitted in fiscal 2012.

During the year, our momentum carried us to a successful close on amending our CPA examination agreement (CTB) with the AICPA and Prometric. As a result, future CPA aspirants can be assured of a stable examination environment and continued high-quality in examination content, administration and delivery through 2024. State boards have significant influence with the examination oversight group, the AICPA’s Board of Examiners.

The momentum related to the CPA examination continued with an historic signing of an agreement between AICPA and NASBA describing and defining provisions for the international delivery of the CPA examination. Shortly an agreement will be signed among AICPA, NASBA and Prometric outlining more specifically the terms and provisions for the delivery of the examination internationally. Yes, the day has arrived, and it is exciting—the CPA examination will be delivered in other countries for the benefit of candidates, the profession and state boards.

Mobility and the Accountancy Licensee Database (ALD) have gained unprecedented success. With 48 states participating in Mobility and 31 participating in the ALD, representing more than 550,000 licensee records, we can assertively acknowledge that substantial barriers to cross-border practice in and among the states and jurisdictions have been removed. The “no escape” provision of Mobility relating to a state’s reach and jurisdiction to an out of state CPA is fortified by the information contained in the ALD. “No notice” and “no fee” are great provisions under Mobility, but “no escape” is the key provision that gives further assurance to state residents that CPAs practicing in their state are qualified, competent and conduct themselves in an ethical manner.

NASBA’s committees—comprised of energetic, competent member and associate volunteers—performed outstanding service on state board relevance and effectiveness, independence, education, enforcement, compliance assurance, regulatory response, global strategies, continuing professional education and other issues.

NASBA’s Examination Review Board (ERB) was restructured to take advantage of a permanent staff force working with a trimmed down volunteer oversight group of five instead of twelve members. The ERB will continue its excellent work in providing assurance to our state boards that the CPA examination is secure, reliable and defensible.
NASBA’s Center for the Public Trust (CPT) burst onto college campuses and began impacting our future business leaders—for the better—on day one, through the launch of the Student Center for the Public Trust (SCPT). “Being a Difference” is not only an award given to individuals of exemplary ethical conduct, but also a recurring theme of the CPT, emphasizing that ethics in the marketplace begins and ends with right-doing and right-being individuals. The vigor and energy we are seeing among those involved with this project are nothing short of momentous.

And, in the worst economy since the Great Depression, NASBA’s operations performed well, our investments—including our subsidiary, Professional Credential Services (PCS)—outperformed our expectations and our overall financial health is strong and robust. Our exceptionally positive results are a testament to our impressive management, our supportive and guiding Board of Directors, and our collaborative and supportive boards of accountancy. These vibrant components created a tremendous year and project an unstoppable momentum for the future of NASBA.

Billy M. Atkinson, CPA  
Chair

David A. Costello, CPA  
President & Chief Executive Officer

Joseph T. Cote, CPA  
Executive Vice President

Ken L. Bishop  
Senior Vice President & Chief Operating Officer
OUR MISSION
To enhance the effectiveness of state boards of accountancy.

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

OUR 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 REPORTS
ACCOUNTANCY LICENSEE DATABASE (ALD) TASK FORCE

Promote and assist with implementation of the ALD in every state.

The Accountancy Licensee Database (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. In five short years, the ALD is now the most current and accurate source of licensing information about individual licensed accountants and accounting firms in the U.S.

The ALD Task Force was appointed in 2008. 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. By early 2008, only 15 boards were actively contributing to and using the ALD and there was not demonstrated interest by many other boards. Today, 31 boards are contributing licensee and firm information in the ALD and 14 more have committed to joining. This will bring the total of participating boards to 44 by mid-2011. With the wide-spread adoption of Mobility, the need for the general public to be able to determine if a person/firm is licensed and in good standing is more prevalent than ever. A public version of the ALD can meet this need because a single search would reveal all jurisdictions where a person/firm has been licensed, limited only by the number of jurisdictions supplying information for the database. A newly named public version is planned to launch the Spring of 2011.

ADMINISTRATION & FINANCE COMMITTEE

Oversee and monitor the fiscal operations of NASBA.

The Administration and Finance Committee monitors the fiscal operations of the Association. Leonard Sanchez, 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, financial 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 NASBA, its wholly-owned subsidiary, Professional Credential Services, Inc. (PCS) and the NASBA Center for the Public Trust (CPT). The Committee also reviewed insurance coverages, internal controls and operating and capital budgets.

The Investment Committee, a sub-committee 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.

Note: The Audit Committee report is featured on page 46.
AWARDS COMMITTEE

Review nominees for the NASBA Distinguished Service Award, the William H. Van Rensselaer Public Service Award and the Lorraine P. Sachs Standard of Excellence Award. Recommend to the Board of Directors the proposed recipients of the awards.

In preparation for the 2010 NASBA Awards program, the Awards Committee extended its annual call for nominations to NASBA membership April – July 2010. The Committee met in July 2010 to review nominations received for the following awards: William H. Van Rensselaer Public Service Award, the NASBA Distinguished Service Award and the Lorraine P. Sachs Standard of Excellence Award. Committee recommendations were presented and approved by the NASBA Board of Directors in July 2010.

This year’s award recipients are K. Michael Conaway of Texas (William H. Van Rensselaer Public Service Award), Shelia M. Birch of Ohio (NASBA Distinguished Service Award) and Daniel J. Dustin of New York (Lorraine P. Sachs Standard of Excellence Award).

BYLAWS COMMITTEE

In response to suggestions from the boards of accountancy, Board of Directors and other NASBA committees, review Bylaws and Articles of Incorporation for clarity and consistency and recommend changes as needed.

This year, NASBA’s Bylaws Committee focused upon a small number of important clarifications to be recommended for consideration. These clarifications address ambiguities that required legal interpretation. To address these issues, the Bylaws Committee proposed, to the NASBA Board of Directors, amendments clarifying language around term limits for the NASBA Board of Directors and the NASBA Nominating Committee. The proposed amendments were shared with the full membership during this year’s regional meetings, and will be voted on for approval during the annual business meeting. The Committee also proposed that the Board of Directors continue to refine the bylaws in order to provide clarity in additional areas.

Chair: Kathleen J. Smith (NE)
Members: Philip W. Gleason (MN)
Andrew P. Marincovich (CA)
Barbara R. Porter (ID)
Staff Liaison: Cassandra A. Gray

Chair: Claireen Herting (IL)
Members: Bennie L. Hadnott (NJ)
Telford A. Lodden (IA)
Myra A. Swick (IL)
Staff Liaison: Alfonzo Alexander
NASBA’s renewal of the CBT Services Agreement with AICPA and Prometric on March 4, 2010, extends the terms of the agreement to 2024. The CBT Administration Committee will continue to assist boards of accountancy by addressing concerns related to the examination.

Operational examination issues and enhancements continued to be the focus for the CBT Administration Committee in 2010. The Committee met via telephone conference calls throughout the year to discuss administration and operation issues such as record retention and multiple re-testers. In addition, the Committee reviewed recommended policy and procedures changes related to the implementation of CBT-e and the internationalization of the examination.

The CBT Administration Committee met in Nashville on July 14, 2010. Discussion topics ranged from implementing fee changes to the restructure of the Examination Review Board. The Committee reviewed recommended policy and procedure changes related to the examination changes scheduled for January 2011, as well as correspondence sent to all stakeholders regarding CBT-e.

The Committee suggested NASBA implement the Prometric seat fee decrease in the same manner all fee increases had been made since 2005, and ensure the savings was passed on to the candidates. Prometric seat fees will decrease effective January 2011, by $2.75 per hour. The Committee also suggested NASBA advise state boards of an additional fee change to be implemented in December 2010, due to the changes in section time allocations under CBT-e.
During the 2009-2010 year, the Communications Committee continued its efforts to assist state boards in enhancing their communications to candidates, licensees and the public-at-large. The Committee centered its work in two strategic areas: Macro Outreach and Social Media Outreach e.g. Facebook and Twitter.

The Macro Outreach Sub-committee is working closely with NASBA’s State Board Relevance Committee to develop talking points and presentations boards can use when interacting with firms, students and licensees to reinforce their message of state board relevance. The Social Media Sub-committee polled all 55 jurisdictions as to their use of social media when interacting and communicating with candidates. The results of the poll revealed that only five boards of accountancy currently use social media as a form of communication, however, the majority of boards that do not use social media were either developing a social media plan and/or interested in learning more about the positive uses of social media. In response, the Committee created a “how-to” social media toolkit that boards can use to implement an outreach program to students and CPA exam candidates. This toolkit will be shared and presented during the 2010 Annual Meeting Communications Officer Breakfast in San Antonio, Texas.

In an effort to share its findings, the Committee hosted and lead discussions at Communications Officer breakfast meetings during the 2009 Annual Meeting and at both of the 2010 Regional Meetings. The meetings were heavily attended with more than 40 attendees at each of the Annual and Regional breakfast meetings and were streamed live via the internet allowing Communications Officers to participate in the discussion even though they were unable to attend in person.

To keep the momentum going, the Committee has plans to work with boards of accountancy on a one-to-one basis to implement outreach programs.
The Compliance Assurance Committee (CAC) conferred in early January 2010 with a stated objective to explore, develop and implement opportunities for state boards to become uniformly involved in standard setting and oversight of mandatory peer review or other compliance assurance review programs. Committee Chair Ken R. Odom provided a comprehensive overview of mandatory peer review and the state board’s varying oversight roles at the Legal Counsel Conference in March 2010 and provided sample peer review oversight board (PROC) legislation and forms to the group. Mr. Odom also made presentations about peer review oversight and state board PROCs at the NASBA Eastern Regional Meeting and Edwin G. Jolicoeur made a similar presentation at the NASBA Western Regional Meeting.

Representatives of CAC, the Peer Review Board (PRB), the National Peer Review Committee (NPRC) and staff of the AICPA met in June 2010 to discuss different aspects of peer review oversight. Highlights of the meeting were agreement:

- by the PRB to issue a written report on the oversight of the NPRC including information similar to that included in the written report on the PRB;

- that representatives of PRB and CAC will meet annually to monitor progress of oversight activities and to keep communications open;

- that CAC would communicate with the PRB regarding state boards that have not implemented a peer review oversight committee and assist in encouraging establishment of such committees;

- that CAC would host a PROC conference on a bi-annual basis with the next conference in 2011 and PRB would assist with speakers and presentations; and

- that CAC will continue to have one member on the PRB and two members on the NPRC.
The CPA Examination Review Board (ERB) issued its 2009 Annual Report to the boards of accountancy of the 55 U.S. jurisdictions, expressing the following: “Based on our review and evaluations, we believe that the boards of accountancy may rely on the Uniform CPA Examination and the International Qualification Examination in carrying out their licensing responsibilities for the year ended December 31, 2009.” Additionally, the ERB presented a comprehensive management letter to the chairman and Board of Directors of NASBA, which included recommendations that could enhance future examinations.

In accordance with the CBT Services Agreement, the ERB also performed an analysis of NASBA’s and the AICPA’s examination costs. Based on their analysis, the ERB did not note any material exceptions to the NASBA or AICPA operational expenses for the fiscal year ended July 31, 2009.

During the 2010 fiscal year, NASBA’s Board of Directors unanimously approved and adopted a plan to restructure the ERB. While the ERB’s charge remains unchanged, the restructuring has an impact on the format by which the ERB executes its charge. This includes a reduction in the size of the ERB to five members, while providing them with a dedicated, full-time staff of up to three persons, which reports directly to the chair of the ERB. To coincide with NASBA’s fiscal year, the ERB operating year has been changed from a June 30 fiscal year end date to July 31, beginning in 2010.

**Fiscal year 2010 ERB included:**

**Chair:** Charles L. Talbert, III (SC)

**Members:**
- Barton W. Baldwin (NC)
- Asa L. Hord (KY)
- Donald E. Howard (MD)
- Wesley P. Johnson (TX)
- David L. King (TX)
- Nicholas J. Mastracchio, Jr. (FL)
- Will J. Pugh (TN)
- Donald R. Roland (GA)
- David A. Vaudt (IA)
- Sandra R. Wilson (AK)
- Robert G. Zunich (OH)

**Consultants:**
- Michael W. Harnish, CPA, CITP
  Technology Consultant

  Steven M. Downing, Ph.D
  Psychometric Consultant

**Staff Liaison:** Toerien DeWit

**Fiscal year 2011 ERB members include:**

**Chair:** Wesley P. Johnson (TX)

**Members:**
- Nicholas J. Mastracchio, Jr. (FL)
- David A. Vaudt (IA)
- Sandra R. Wilson (AK)
- Charles L. Talbert, III (SC)
CPE ADVISORY COMMITTEE

Monitor the statements on standards for continuing professional education to encourage implementation by state boards, develop aids and interpretations and oversee the sponsor membership appeal process. Lead the bi-annual CPE Conference.

In connection with the May 2010 meeting, the CPE Advisory Committee provided a forum for an open and candid discussion of the Statement on Standards for Continuing Professional Education Programs (Standards). A key outcome of the forum was to develop a Task Force to help review, analyze and implement suggestions and changes to the Standards.

In June 2010, the CPE Advisory Committee developed the CPE Task Force which is comprised of sponsors, state accountancy board representatives, an AICPA representative and academia. In addition to the Standards, the CPE Task Force will also consider the content on interpretations to the Standards as published in the Frequently Asked Questions (FAQs) document and additional interpretations to the Standards published by the CPE Advisory Committee in December 2007 and September 2009.

The CPE Task Force is diligently approaching this project having met in Nashville on July 28, 2010, and subsequently meeting via conference call on August 11, 2010. Both meetings were very productive and resulted in the establishment of an aggressive timeline. For example, December 2010 is the target date for completion of the Standards review and analysis. This document will then be presented to the NASBA and AICPA Boards of Directors at a January 2011 meeting. An open commentary period will follow with a target date of May 2011 for finalization of the Standards. The next scheduled meeting of the CPE Task Force is October 4-5, 2010, in Nashville.

Planning and preparation for the 2011 CPE Conference is underway. The 2011 CPE Conference will take place March 7-9, 2011, in San Diego, California.

Chair: Theodore W. Long, Jr. (OH)
Staff Liaisons: Yordanos Dumez Jessica Luttrull
EDUCATION COMMITTEE

Explore and define issues relating to educational requirements for entry into the profession, including effective implementation of UAA Rules 5-1 & 5-2 among the states. Work collaboratively with the education community and profession to proactively address issues relative to college curriculum. Research and address any unresolved issues cited in NASBA’s 120/150 paper and address issues contained in ACAP’s recommendations.

The Education Committee focused on strengthening NASBA’s relationships within the academic community. Education Committee Co-Chair, Melanie Thompson, made presentations at American Accounting Association (AAA) meetings. NASBA Chair, Bill Atkinson, and Education Committee Co-Chair, Mark Harris, attended the AAA and Accounting Programs Leadership Group (APLG) annual meetings. The Committee leadership also helped secure representatives from the AAA and the Pathways Commission to speak at NASBA’s regional and annual meetings.

Another focus of the Committee this year was a review of the regulatory concerns noted in the human capital section of the United States Treasury Department’s Advisory Committee on the Auditing Profession. Through this review, the Committee identified areas related to data collection and diversity within the profession NASBA can impact in the future.

The Committee is very excited about its work on a new program where NASBA will award research grants. These grants will be awarded on a competitive basis for projects addressing accounting education and regulatory issues affecting the member boards of accountancy. The Committee is currently working with the NASBA Board of Directors to finalize the program.

Co-Chairs:  
Mark P. Harris (LA)  
Melanie G. Thompson (TX)

Members:  
Shelly B. Boone (MS)  
Charles H. Calhoun, III (FL)  
Walter F. D’Olive, III (AL)  
Stephen C. Del Vecchio (MO)  
David deSilva (NY)  
Pamela J. Douglass (VT)  
James C. Flagg (TX)  
Nathan T. Garrett (NC)  
Johanna Jagels (ID)  
Valerie Fabregas Kilbridge (NY)  
Leslie J. LaManna (CA)  
Kathleen K. Mooney (MN)  
John E. Peterson (SD)  
Douglas W. Skiles (NE)  
Karen F. Turner (CO)  
Penelope Yunker (IL)

Staff Liaison:  
Alfonzo Alexander

ENFORCEMENT ASSESSMENT & BEST PRACTICES COMMITTEE

Develop a “Best Practices” state board’s manual for seeking and managing complaints and conducting investigations, hearings, sanctions and appeals together with their disposition.

The Enforcement Assessment & Best Practices Committee has enjoyed an extremely busy year. Within a condensed period, the Committee has generated a Best Practices Manual for state boards and compiled a broad resource list which will supplement the best practices. The Manual will operate as an indispensable tool for state boards as they manage the complaint process. It will also serve as a resource for conducting investigations and hearings; determining sanctions; and communicating dispositions. As states are seeking ways to cut costs, NASBA believes that a strong enforcement scheme translates into a value-added for boards and will continue their efforts towards enhancing the process.

Chair:  
Michael Weinshel (CT)

Members:  
Jeffrey T. Barber (NC)  
Dian T. Calderone (VA)  
Albert J. Cannon (OH)  
Sharon M. Cirillo (DE)  
David D. Duree (TX)  
Shelley R. Johnson (IN)  
Neil N. Lapidus (MN)  
Tim Murphy (MD)  
Jose Ramon Rodriguez (NC)  
Tom Volturo (OK)  
Viki A. Windfeldt (NV)

Staff Liaisons:  
Linda L. Biek  
Ken L. Bishop
ENFORCEMENT RESOURCE COMMITTEE

To assess and provide resource support to state boards in enforcement matters, including discovery, investigations, expert witness sourcing, etc.

The Frank-Dodd Wall Street Reform and Consumer Protection Act attempts to provide regulatory reform that will protect the interests of the public. In a proactive move, the Enforcement Resource Committee has been actively involved in strengthening relationships with federal agencies and providing resource support to state boards in enforcement matters including discovery, investigations and expert witness sourcing. The involvement of the Committee will continue to grow as the activities of the boards of accountancy adapt to encompass any requirements of federal financial reform that flow through to the individual jurisdictions.

ETHICS & STRATEGIC PROFESSIONAL ISSUES COMMITTEE

Monitor and evaluate the issues of AICPA’s PEEC, to harmonize ethics standards of state boards with other regulatory bodies. To promote the development and adoption of UAA ethics provisions uniformly among the states, and to share with state boards emerging ethics and other professional issues.

The Ethics & Strategic Professional Issues Committee focused on two important issues this past year which resulted in significant white papers being drafted. The paper on “Audit Fees and Engagement Profitability: A Threats and Safeguards Approach to Strengthen Compliance with Standards of Ethical Behavior,” identified the ethical issues posed when a firm quotes a very low, or below cost, audit fee. The Committee made a concerted effort to view this issue through the eyes of the investing public rather than practitioners.

A properly developed concept of independence enables auditors to carry out their responsibility to report accurate unbiased financial information to shareholders. The Committee’s white paper “Proposed Uniform Definition of Independence,” studies and reviews many other sources, including state boards’ definitions and proposes that a uniform definition of independence is critical to the consistency and reliability of financial information examined by auditors and is in the public interest. Furthermore, because nearly all of the 55 jurisdictions have adopted Mobility, it is imperative for firms and licensees that independence standards be uniform across state boundaries.
EXECUTIVE DIRECTORS COMMITTEE

Provide Executive Director colleagues a platform for education and information exchange; provide NASBA with administrative and regulatory perspective; and facilitate cooperation and understanding among common-ground entities.

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 27th Annual Conference for Executive Directors in Jacksonville, FL achieved that objective as executive directors discussed topics such as Data Retention, Impact of International Issues, Best Practices, Enforcement, Government Relations, Compliance Assurance, Public Communications, Accountability, Examination Security and Mobility.

The Committee continues to coordinate and plan for the 28th Annual Conference for Executive Directors in Nashville, TN. In addition, the Committee has developed a matrix outlining the frequency of each jurisdiction’s board meetings.

GLOBAL STRATEGIES

Identify and assert state boards’ influence among short and long term global issues effecting regulation in accounting principles, auditing standards, standards of ethics and education, and other international aspects of the accounting profession. Manage and monitor NASBA’s periodic International Accounting Regulators’ Forum. Identify, refer and monitor issues with appropriate NASBA committees and/or task forces for action.

In 1973, the International Accounting Standards Committee (IASC) was founded to develop a set of internationally recognized accounting standards. With the development of the European Union (EU) and an intense debate supporting one high-quality set of standards, the International Accounting Standards Board (IASB) evolved out of the IASC and the EU instituted a requirement that all member countries adopt IFRS.

In 1977, the International Federation of Accountants (IFAC) was formed to assist developing countries with auditing standards. Currently, IFAC oversees the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Boards for Accountants (IESBA), the International Accounting Education Standards Board (IAESB), and the International Public Sector Accounting Standards Board (IPSASB) and has a membership base of more than 120 countries. NASBA leadership believes that state boards of accountancy throughout the United States must have a voice in the international dialogue pertaining to international standards, regulation and enforcement.

In order to promote this voice, the Global Strategies Committee organized the 3rd Annual Forum of International Accountancy Regulators in Madrid, Spain. The event exceeded expectations and included numerous countries that had not participated in the past. As the group discussed audit quality and international cooperation of regulators, a common theme emerged allowing the group to work towards a more collaborative international plan. The Global Strategies Committee will support this international plan by providing thoughtful consideration of the issues that are facing accounting regulators. How will accounting regulators work together to enhance relationships with the international community? What steps need to be taken to ensure that the citizens of the United States are properly protected in this global economy? What changes are needed for the future?

Chair: Daniel Sweetwood (NE)

Members: Clifford Cooks (DC)
Mark H. Crocker (TN)
J. Lamar Harris (AL)
Pamela Ives Hill (MO)
Nicole Olson-Kasin (SD)
Louise O. Romeo (NH)
David Sanford (GU)
Richard C. Sweeney (WA)

Staff Liaisons: Patricia Hartman
Anita L. Holt

Chair: Samuel K. Cotterell (ID)

Members: Rudy Bermudez (CA)
Shelly B. Boone (MS)
Charles H. Calhoun, III (FL)
John G.D. Carden (AL)
Angela Chi (CA)
Ruben A. Davila (CA)
Wayne Michael Fritz (OH)
Robert L. Gray (NY)
Gaylen R. Hansen (CO)
Margaret A. Houston (OH)
Venable M. Houts (MO)
Timothy J. Martin (IL)
T. Farrell Nichols (GA)
Diane M. Rubin (CA)
William Treacy (TX)
Michael D. Weatherwax (CO)
Arthur M. Winstead, Jr. (NC)

Staff Liaison: Linda L. Biek
INTERNATIONAL DELIVERY OF THE CPA EXAM (iEXAM)

The iExam Committee has been reviewing and making recommendations for the implementation of international delivery of the CPA examination in 2011.

The Committee also reviewed the terms for the new international delivery contracts with the AICPA and Prometric.

In preparation for the 2010-2011 term, several of the Committee’s members have been named to the new Board of Examiners and others will be assigned to the newly established CPA Examination Administration Committee. As a result, 2009-2010 marks the end of the iExam Committee’s activity.

INTERNATIONAL QUALIFICATIONS APPRAISAL BOARD (IQAB)

Besides continuing to review existing Mutual Recognition Agreement (MRA) partners’ evolving requirements, this year the NASBA/AICPA International Qualifications Appraisal Board (IQAB) has been in ongoing communication with the Hong Kong Institute of CPAs, in hopes of completing another MRA shortly. There have also been informal inquiries from the South African Institute of Chartered Accountants, the Institute of Chartered Accountants of India, the State Audit Institution of the United Arab Emirates, the Philippine Board of Accountancy, and the Institute of Chartered Accountants of Pakistan. IQAB Chair Bill Treacy has met with leaders of the Chinese Institute of CPAs, both in the United States and in China. Following their attendance at the July NASBA Board of Directors meeting, representatives of the Institute of Chartered Accountants in England and Wales said they hope to make a formal application to IQAB by March 2011.

Two new task forces were created by Chair Treacy this year to study changing elements in the recognition of professional accountants. The Audit Practice Rights Task Force, led by Mr. Leiserowitz, is studying the pros and cons of covering in MRAs members of a professional body who are not eligible for audit practice rights in their home country. The Offshore Education Task Force, led by Mr. Davila, is considering the variations and innovations in the way people achieve their pre-requisite education to be eligible to sit for the qualifying examination of their MRA applicant countries.

IQAB is preparing to release to member boards and other interested parties a manual covering its existing procedures, evaluation templates and signed agreements. A section on NASBA’s Web site has been created to address questions about IQEX, mutual recognition agreements and other international topics.

Meetings for IQAB were held this year on April 26-27, 2010, at the AICPA’s office in Washington, DC, and October 14-15, 2010, at NASBA’s office in Nashville, TN. Representatives of the Canadian Institute of Chartered Accountants, the Instituto Mexicano de Contadores Publicos and the Office of the U.S. Trade Representative participated.
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 Council meets prior to each year’s Annual Meeting.

Chair: Thomas J. Sadler (WA)
Members: Barton W. Baldwin (NC)
Sarah G. Blake (AZ)
Milton Brown (NJ)
Thomas F. Cardegna (MD)
K. Michael Conaway (DC)
Samuel K. Cotterell (ID)
Albert J. Derbes, III (LA)
Robert C. Efion (FL)
Welling W. Fruehau (PA)
Nathan T. Garrett (NC)
John M. Greene (SC)
Thomas lino (CA)
Wesley P. Johnson (TX)
Noel P. Kirch (OK)

NOMINATING COMMITTEE

Nominate officers and directors for 2010-2011 in accordance with NASBA’s Bylaws.

Nominating Committee members gathered in March and June of 2010 to make their recommendations for Vice Chair, Directors-at-Large and Regional Directors. As part of the Vice Chair selection process, each recommended candidate completed a questionnaire detailing specific skills and experience they could offer to NASBA through a leadership role as chair. Committee members attended both the Eastern and Western Regional Meetings to familiarize themselves with nominees being considered for board positions. In accordance with the Bylaws, the Committee submitted its report to the Chair in June 2010.

Chair: Thomas J. Sadler (WA)
Members: Charles W. Clark (ID)
Bobby R. Creech, Jr. (SC)
Andrew L. DuBoff (NJ)
Dorothy M. Fowler (TX)
Edwin G. Jolicoeur (WA)
David P. Kassouf (AL)
Marianne Mickelson (IA)
Myra A. Swick (IL)

Staff Liaison: Anita L. Holt

Staff Liaison: Joseph T. Cote
**REGULATORY RESPONSE COMMITTEE**

Develop regulatory responses to issues embodied in accounting and auditing exposure drafts and statements, and drafts and statements of other entities that will impact the state boards’ regulatory and enforcement responsibilities.

The Regulatory Response Committee conducts its work via conference call. The Committee has been extremely active in reviewing hundreds of pages of exposure drafts, answering requests for comments, and developing responses to issues related to the regulation of the accounting profession. The Committee determined some proposals to be of interest, but not directly related to regulation, and consequently not appropriate for NASBA’s response. Letters were crafted by the Committee for NASBA’s leadership to address those issues important to the member boards.

Led by Chair Rick Isserman, letters were developed this committee year about: U.S. Securities and Exchange Commission Strategic Plan for 2010-2015; Financial Stability Improvement Act of 2009; International Organization of Securities Commission’s “Exploration of Non-Professional Ownership Structures for Audit Firms – Consultation Report”; HR 4410 on qualifications for the U.S. Comptroller General; House Rule 4173 on Section 404(b) of the Sarbanes-Oxley Act of 2002; International Accounting Education Standards Board Request for Comments on “A Consultation Paper on the Revision of International Education Standard 8: Competence Requirements for Audit Professionals”; Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews of Quality Control Materials and Continuing Professional Education Programs; and AICPA/FAF/NASBA Blue Ribbon Panel on Standards Setting for Private Companies’ survey. Other materials are under review at this time. Based on the Committee members’ discussion of the documents, initial drafts were composed, and then edited by the Committee.

In addition to its drafting work, the Committee several times met via conference call with NASBA Chair Billy Atkinson to discuss matters raised at the Blue Ribbon Panel, on which Mr. Atkinson represents NASBA.

**RELATIONS WITH MEMBER BOARDS COMMITTEE**

Provide for the exchange of information and ongoing communications between NASBA and its member boards. In coordination with NASBA Officers, visit state boards in respective regions to identify issues, obtain input and report on NASBA and other state boards’ activities. Identify issues for Regional Meetings and recommend sites and alignments.

The Relations with Member Boards Committee, which includes all of NASBA’s Regional Directors and the Executive Directors Committee Chair, each quarter reaches out to the member boards to obtain their views on topics impacting regulation. During three quarters of the year this was accomplished through the use of Focus Questions, which were emailed to the State Board Chairs and Executive Directors. However, during the spring quarter, when the Regional Meetings took place, there were no Focus Questions sent out as there were extended face-to-face meetings with the boards’ representatives during the Regionals. Chair Burkett directed the Committee in their development of questions to be e-mailed to the boards, as well as those posed at NASBA’s Regional and Annual Meetings.

The Committee was involved in creating and presenting the New Board Member Orientation Program and the Regional Meetings, and planning for future meetings.

The Regional Directors continued their program of attending each of the member boards’ meetings at least once within a three-year cycle. In addition, Northeast Regional Director Michael Weinsheil held a meeting with his states’ representatives at the Connecticut Board of Accountancy’s office on May 4 and Central Regional Director Telford Ladden held a conference call with his states on April 29.

As issues have been raised by the Board of Directors, the Committee has offered to assist in distributing information about them to the member boards. They have assisted in promoting the Accountancy Licensee Database (ALD) and Mobility legislation.
On February 1, the State Board Relevance & Effectiveness Committee met in Oklahoma City to plan out how they would approach their charge. Chair Carlos Johnson split the Committee’s work among four task forces: Rationale for an Independent Board (Ellis Dunkum chair), Template for Independent Board Law (Ray Johnson chair), Budget for Independent Board (Barbara Porter chair) and Web site information development (Rick Sweeney chair).

The task forces have held many conference calls and have carefully drafted three papers, as well as enhanced the NASBA Web site with legislative information. On March 23, Committee Chair Carlos Johnson addressed the NASBA State Board Executive Directors Meeting to explain the Committee’s work and request their input based on experience with their boards and legislators. During both June Regional Meetings drafts of the rationale, template and model budget templates were distributed and breakout sessions gathered input from attendees on the drafts, which resulted in additional fine-tuning of the documents. Drafts of the papers were then sent to other interested parties for review and comment.

The documents support the conclusion: “It is essential for accountancy boards to have a high level of autonomy in operational and financial matters and the authority to operate at a level that is commensurate with their responsibility to act in the public interest.”

It is anticipated that the Board of Directors will approve the Committee’s reports in October and the Committee will then join forces with others to promote the self-directed/semi-independent board concept for all state accountancy boards.
UAA MOBILITY IMPLEMENTATION SUB-COMMITTEE

Assist state boards to make appropriate changes to state laws and rules to permit cross-border practice and Mobility of the CPA license without notice. Assist in studying and promoting implementation issues consistent with the original design and interest of the Mobility model statute.

During 2010, the UAA Mobility Implementation Sub-Committee has monitored the Mobility efforts across the state boards. The work during the past year has fallen primarily on an implementation workgroup consisting of members of NASBA, the AICPA and The Accountants Coalition (TAC). This workgroup has monitored the implementation of Mobility in each state and worked to help the states deal with the practical issues that have arisen as Mobility is put into practice in each jurisdiction. At present, 47 states have adopted Mobility as defined in the UAA.

For 2011, the Mobility Committee has been folded into the UAA Committee and will no longer be maintained as a separate committee. Chairman Ron Rotaru and all Committee members have done a great job guiding this major legislative effort through to completion.

Adoption of Mobility in the remaining jurisdictions will monitored by the UAA Sub-Committee. Implementation issues will continue to be monitored by the implementation workgroup.

UNIFORM ACCOUNTANCY ACT COMMITTEE (UAA)

Monitor the need for revisions to the UAA and the Model Rules, including proposals from other NASBA Committees, and suggest appropriate new revised provisions to the NASBA Board of Directors for approval and release for exposure and comment.

The UAA Committee this year focused on developing guidance for boards, CPA firms and licensees on CPA networks and firm names. The Committee held a joint meeting with the AICPA UAA Committee on November 18, 2009, in Chicago and at that time recognized that to address the network and firm name issues a joint task force would need to be established to study the topic in depth. UAA Committee Chair Laurie J. Tish selected Andrew L. Duboff to chair the task force, with NASBA representatives including J. Dwight Hadley, Thomas J. Mulligan and NASBA Vice Chair Michael Daggett.

Last year’s white paper on firm names, jointly developed by NASBA and the AICPA, served as the basis for this year’s UAA Task Force’s work, but did not limit their discussion of related topics. Their deliberations were aided by the advice and research provided by legal counsel Noel L. Allen, as he kept the Task Force aware of the 55 jurisdictions’ rules for determining what names would be misleading, so that the proposed language would cover their concerns. Their work was also facilitated by the release of the AICPA’s Professional Ethics Executive Committee’s ET 101-17, defining “networks” and “network firms.” The language being proposed by the UAA Committee is in line with the PEEC’s interpretations. Guidance was also provided by NASBA and AICPA leadership, who emphasized that CPA interstate Mobility should be considered when statute changes are proposed.

Topics that remain on the UAA Committee’s agenda are: insuring engagements done in compliance with IFRS are under the Accountancy Board’s authority, determining appropriate titles for retired CPAs, and other proposals developed by NASBA committees. It is anticipated another joint meeting will be held prior to the end of the committee year in order to finalize proposed changes to be presented to the NASBA Board of Directors for their approval for release for comment to the member boards.
### 2009 - 2010 BOARD OF DIRECTORS

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- **Billy M. Atkinson, CPA (TX)**  
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- **Michael T. Daggett, CPA (AZ)**  
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  Past Chair

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- **Sally Flowers (CA)**  
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- **Theodore W. Long, Jr., CPA (OH)**  
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  Director-at-Large/Treasurer

- **Kathleen J. Smith, CPA, Esq. (NE)**  
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- **Donald H. Burkett, CPA (SC)**  
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- **David D. Duree (TX)**  
  Southwest Regional Director

- **Claireen Herting, CPA, JD (IL)**  
  Great Lakes Regional Director

- **Telford A. Lodden, CPA (IA)**  
  Central Regional Director

- **Kenneth R. Odom, CPA (AL)**  
  Southeast Regional Director

- **Harry O. Parsons, CPA (NV)**  
  Mountain Regional Director

- **Laurie J. Tish, CPA (WA)**  
  Pacific Regional Director

- **Michael Weinshel, CPA (CT)**  
  Northeast Regional Director

#### EXECUTIVE DIRECTORS’ LIAISON

- **Daniel Sweetwood (NE)**
First Row (left to right): Theodore W. Long, Jr.; Sally Flowers; David A. Costello; Billy M. Atkinson; Thomas J. Sadler; Michael T. Daggett; Laurie J. Fish; Joseph T. Cote. Middle Row (left to right): Richard Isserman; Telford A. Loden; Noel L. Allen; Kathleen J. Smith; David D. Duree; Daniel Sweetwood; Kenneth R. Odom; Carlos E. Johnson; Claireen Herling. Back Row (left to right): Mark P. Harris; Walter C. Davenport; Leonard R. Sanchez; Harry O. Parsons; Donald W. Burkett; Gaylen R. Hansen Michael Weinsel.
PROFESSIONAL CREDENTIAL SERVICES, INC.

PCS Executive Board of Directors

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NASBA CENTER FOR THE PUBLIC TRUST

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Executive Director  
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Manager of Programs

ALFONZO ALEXANDER  
Chief Relationship Officer
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Alfonzo Alexander
Chief Relationship Officer

Lisa Axisa
Executive Director, Center for the Public Trust

Ed Barnicott
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Shawn Bell
Manager, PCS Professional Contracts

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Manager, Scheduling and Planning

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PCS President and Chief Executive Officer; Director, Customer Service and Resource Center

Alana Hartley
Manager, IT Products

Patricia Hartman
Director, CPA Examination Operations and National Candidate Database

Adam Herjeczki
Manager, Special Accommodations

Allan Hicks
Manager, TAQ and Shipping

Anita Holt
Executive Assistant to the President & CEO

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Manager, CPA Accounting Operations

Cheryl Hutchings, CPA
PCS Controller

Karen Johnson, CPA
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Randy Jung
Manager, Guam Computer Testing Center Operations

Thomas Kenny
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Mary Lane
Manager, Facilities

Christy Lewellen
Manager, Human Resources

Kathy Love
Manager, Exam Coordinators

Angel Lynn
Chief People Officer

Jessica Luttrull, CPA
Manager, Sponsor Services

Jose Manzon
Manager, Guam Computer Testing Center

Chris Mays
Manager, National Candidate Database

Rachel Nelson
Manager, Customer Solutions

Perri duGard Owens
Manager, Marketing

Denny Phillips
Manager, Print and Delivery Operations

James Polite, II
Manager, Software Development

Francine Rananto
Manager, PCS Cosmetology

Rebecca Rodriguez
Manager, Business Development

Kathryn Rooks
Manager, Marketing

Anne Russell
Manager, PCS Test Administration

Morgan Scheel
Manager, Wall Certificate Service

James Suh, PMP
Sr. Project Manager

Vanessa Taylor
Manager, Risk and Compliance

Butch Thomas
Manager, Software Development

Tom Tinsley
Manager, IT Network

Penny Vernon
Manager, Candidate Care

Troy Walker, CPA
NASBA Controller and PCS Chief Financial Officer

Terri Williams
Manager, Employee Activities

Janice Winslett
Director, Quality Assurance

Andrew Wolford
Manager, Business Systems Support
THE YEAR IN REVIEW
2009-2010 Being a Difference Award Recipients

The Being a Difference Awards honors individuals and organizations for their unique contributions to social responsibility and ethical leadership. Past recipients range from Fortune 500 executives, Olympic athletes, and Big Four audit firms, to individuals who have worked courageously but quietly in support of the public trust. Our committee also worked on developing a public trust component of the program that will be implemented in 2010-2011. The 2009-2010 winners were:

Bryan “Bill” William, CPA, CEO of Mt. Olive Pickle Company, Mount Olive, NC. Mr. William was recognized because of his ethical leadership and:

- Ability to lead the organization using integrity, a sense of fairness and a deep commitment to family, company and community
- Promotion of community service among employees
- Strong corporate social responsibility

Spartanburg Water, a publicly-owned utility company located in Spartanburg, SC, was distinguished for:

- Treating their employees as their most valuable assets
- Asking employees to make a commitment to ethical standards and making integrity a priority.
- Encompassing eight guiding principles: Safety, Excellence, Commitment to Customer Service, Diversity, Integrity and Respect, Innovation and Creativity, Accountability, and Stability of Purpose
- Incorporating a comprehensive, holistic ethics program

The CPT’s Donors—They Make it All Possible

“Ethics is the most important thing in one’s personal and business life,” says long-time supporter of the NASBA Center for the Public Trust, Milton Brown, when asked why he personally supports the CPT. Mr. Brown is one of the CPT’s most generous individual donors and the very first person to have donated to the CPT. Donors give for a variety of reasons, but that resounding thought has been echoed by many of our donors – the CPT is a much needed organization for today’s society.

The CPT values and appreciates its donors who make it possible to create an awareness of the need for integrity and trust in our society. We are most grateful to this year’s Trust Society member, Pinnacle Bank, for its generous contribution of $50,000. Pinnacle’s donation is in line with its Value Statement:

Actions count – not what’s on paper. Pinnacle is a values-driven organization. From our hiring philosophy to our client service, our goal is to demonstrate our values in every interaction. Integrity, Fairness, Learning, Partnership, Results, Balance and Discipline.
ENSURING INTEGRITY: 4TH ANNUAL AUDIT CONFERENCE

CPT, along with the Baruch College Robert Zicklin Center for Corporate Integrity continued their collaboration and co-sponsored “Ensuring Integrity: the Fourth Annual Audit Conference” in New York City on December 11, 2009. By bringing together top speakers from the Public Company Accounting Oversight Board (PCAOB), the Securities and Exchange Commission (SEC) and the American Institute of CPAs (AICPA), the conference provided a discussion on current best practices of ethics and independence within the auditing profession.

Keynote speaker Robert J. Keuppers, Deputy CEO of Deloitte & Touche, LLP, noted that the landscape is constantly evolving, and trust in the accounting profession has been challenged time-after-time. The accounting profession must meet evolving market needs while keeping true to its fundamentals. Professional skepticism, ethics and integrity have always been cornerstones of the profession. Martin Bauman, Chief Auditor of the PCAOB, reported that the Standing Advisory Group (SAG) is working on standards to assist in improving risk-assessment. They are also collaborating closely with other organizations to create a comparison between these standards and other organizations’ standards. During the “Auditing Fair Value” panel discussion, it was noted that anything can be valued under fair value, but you need to determine the appropriate approach and rely on guidelines. Moderator, Brian Richson, a PricewaterhouseCoopers LLP partner, noted that the landscape of the credit market has changed and “substantial doubt” is not understood by audit users. During the, “What Every Auditor Should Know” discussion, a participant asked, “When doing an audit, how much should I think about liability and how much about doing my job?” Michael Young recommended that auditors do what they are trained to do: Do what makes sense and try to keep the objective of transparency in the forefront of thinking.

STUDENT CENTER FOR THE PUBLIC TRUST

In September 2009, the CPT launched the Lipscomb University Student Center for the Public Trust (SCPT). Located in Nashville, TN, with an enrollment of over 3,000 students, Lipscomb’s SCPT was the first chapter launched and attracted 128 members. Chapter Advisor Lisa Shacklett, Executive Director of Marketing and Enrollment, College of Business, noted, “The formation of the SCPT on Lipscomb’s campus has been wonderful. SCPT guest speakers have helped our students to recognize that ethical behavior requires daily decisions over very real issues.”

Four presentations were held on campus throughout the year. “The Power of Trust,” led by Jack Faris, past president of the National Federation of Independent Business and CPT Board Member. The Lipscomb SCPT members discussed ethics and leadership issues with J. David Whitfield and Drew Monks, young executives from Ernst & Young, one of the world’s leading professional service organizations. Dr. Roy Elam, spoke about the serious consequences of unethical behavior in the medical arena. By using case studies, Elam engaged the students and inspired a lively question and answer session. Vice President/CFO of the Tennessee Titans, Jenneen Kaufman, discussed ethical leadership in the sports arena. She attributed her success to her values and strong ethical mores. Student Treasurer Brooke Jackson stated, “Through my experience with the Student Center for the Public Trust, I realize that trust and integrity are values that I will embrace throughout my career.”

In August 2010, the second SCPT chapter launched on the campus of Birmingham Southern College in Birmingham, AL. The SCPT is the first student run organization housed in the university’s business school. The Birmingham Southern SCPT chapter is planning four educational events on campus and will participate in this year’s SCPT ethics competition. The SCPT plans to continue its growth by recruiting and launching additional chapters throughout the year. Another exciting event being planned is a SCPT Leadership Conference, which will provide participants with an opportunity to meet students from other chapters, and learn about more important topics such as ethics, leadership, integrity and accountability.

FRIENDS OF THE CPT

Friends of the CPT, a newly-formed volunteer committee of the NASBA Center for the Public Trust (CPT), was initiated to create awareness of the CPT and to host fund raising events to benefit the organization. The committee’s inaugural event will be a silent auction during NASBA’s 103rd Annual Meeting. The CPT is very grateful to this newly-formed group for its focus, hard work, passion and enthusiasm.

ETHICS IN ACTION VIDEO COMPETITION

The Center for the Public Trust launched a student video competition in April as an opportunity for Middle Tennessee college and university students to unleash their creativity while focusing on the theme of portraying Ethics in Action. The goal of the competition was to challenge students’ creativity and originality in addition to educating student viewers on the various aspects of leadership, ethics and business. Participants were instructed to focus on any aspect of ethical behavior and to stage the video in any format - as a short play, commercial, talk show, music video, documentary, etc.

The Ethics in Action Student Video Competition culminated at a Premier Party on the Lipscomb University campus. The winning video, created by Bobby Bracks, from Fisk University, compared ethics to water, because he doesn’t want to live in a world without either one. In his acceptance speech, he said, “We depend on water; we should depend on ethical behavior, too.”
NASBA becomes "affiliate" of the International Federation of Accountants, as its special status as the representative of cumulatively the world's largest regulatory body of licensed accountants is recognized.

The terms of the Computer-Based Testing Services Agreement including NASBA, the American Institute of CPAs and Prometric are extended to 2024. Under the new contract, NASBA will have majority membership on the Board of Examiners.

NASBA/AICPA/FAF Blue Ribbon Panel takes shape to address how U.S. accounting standards can best meet the needs of users of private company financial statements.

The NASBA Center for the Public Trust co-sponsors Baruch College's Fourth Annual Auditing Conference, "Ensuring Integrity."

David A. Costello announces he will retire as of January 1, 2012, as NASBA's longest serving president. The Board of Directors approves the process to determine his successor, including the formation of a Selection Advisory Committee.

Ken L. Bishop becomes NASBA's Chief Operating Officer, following the announcement that Joseph T. Cote will retire as of December 31, 2010. Mr. Cote continues as Executive Vice President.
May 2010
NASBA Board formally approves the restructuring of the CPA Examination Review Board. As of August 1, 2010, it is to include five volunteers and three full-time staff members.

June 2010
LearningMarket.org is launched to offer continuing professional education (CPE) and sponsors a single location from which to promote high-quality programs and to manage their CPE Sponsor Registry and Quality Assurance Service memberships.

July 2010
Eastern and Western NASBA Regional Meetings discuss draft papers on the need for semi-independent self-reliant state accountancy boards, a uniform independence standard and prohibition of audits performed at a loss.

August 2010
NASBA leadership holds first summit meeting in Toronto with leaders of the Canadian Institute of Chartered Accountants and the Provincial Institutes.

September 2010
Third Annual NASBA International Forum concludes (held September 29 – October 1) in Madrid, Spain. With the assistance of the Public Interest Oversight Board, a special reception was held to recognize Forum attendees and special guests.

October 2010
NASBA’s emergency procedures keep candidate information available despite the historic devastating flood in Nashville and Middle Tennessee.
In 2009, the Communications Department launched the Meetings Division to assist state boards of accountancy, nonprofit organizations, associations and companies with their meeting planning, communications and outreach initiatives. The services provided by the Meetings Division include: conference and event planning, communications, marketing, graphic design, video production and printing.

Over the course of 2010, the Division has assisted four boards of accountancy and the Federation of State Massage Therapy Boards (FSMTB) with the following meeting and communications needs.

Oklahoma Accountancy Board
- Tradeshow Banner Design
- Board Logo Design
- Brochure Layout

Nebraska State Board of Public Accountancy
- Video Editing

Nevada State Board of Accountancy
- Newsletter Creation, Design and Layout

Texas State Board of Public Accountancy
- Video Production and Editing
- “How to Become a TX CPA”

Federation of State Massage Therapy Boards (FSMTB)
- Conference Planning, Graphic Design and Videography for the association’s 2010 Annual Conference

The Division is currently partnering with additional boards of accountancy to support various projects including Web site design, publication creation and design, as well as a number of video projects.

GAINING MOMENTUM:
NASBA’S MEETINGS AND COMMUNICATIONS DIVISION

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- “How to Become a TX CPA”

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NASBA accomplishes its goals by pursuing a variety of high-quality member and consumer products and services. Member services include, but are not limited to, association meetings, CPA Examination administration and assistance with licensing. NASBA’s consumer products also vary by reaching across the spectrum from licensing application assistance to continuing professional education (CPe), compliance management services to a national registry of CPE sponsors.

In the past few years, NASBA launched additional products and services to the accounting profession. Clients include individual CPAs, CPE providers, state accounting societies and accounting firms of all sizes. These and other organizations are assured that NASBA will continue to provide quality products and services to further business continuity and effectiveness. The following pages detail more about the various products and services offered by NASBA.

**NATIONAL CANDIDATE DATABASE**

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

**CPA EXAMINATION SERVICES**

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

NASBA has provided licensing services to state boards for more than 25 years. NASBA has the capability and resources to help make the licensing process more efficient for state boards and candidates. NASBA licensing services include application processing, eligibility determination, score reporting, education and experience evaluation. NASBA also provides excellent and reliable customer service to candidates throughout the licensing process.

Accountancy Licensing Library

The Accountancy Licensing Library (ALL) is an online resource that provides up-to-date, reliable CPA licensing information for all 55 state boards of accountancy. This library enables state board members and staff to find accurate answers to jurisdictional questions, educate new board members and staff, easily cross-reference multiple state requirements, quickly identify which states require ethics, peer review and 120 vs. 150 to sit and more. ALL also includes board rules, regulations, procedures and policies and provides official forms in fill-in PDF formats. ALL is complementary for state board staff members. As such, NASBA routinely hosts training webinars for state boards of accountancy staff members.

Additionally, ALL addresses the needs of individual CPAs who are pursuing initial or reciprocal licensure information and accounting firms needing assistance with firm registration or multi-practitioner licensing. ALL is the perfect resource for simplifying the licensing process.

NASBA’s legal staff translates state board legalese into simple narrative, making it easier to understand and comply with state requirements. ALL goes one step further, detailing the licensing procedures and providing step-by-step instructions for applying.

As an additional and complementing component, state boards and licensees can also utilize CredentialNet as a concierge service to assist with seamless application development and submission for all types of licensure. NASBA manages these processes from start to finish allowing state boards, licensees and firms the opportunity to focus on day-to-day business.

NASBA is confident of the accuracy and integrity of ALL content. Various steps are involved to assure this information through a rigorous maintenance process that involves daily updates, regular reviews of state board Web sites and working closely with individual state boards to further ensure accuracy.

CredentialNet

CredentialNet is a concierge service for CPA candidates or licensure applicants. By assembling and submitting a complete package at one time, CredentialNet helps state boards with a seamless application evaluation process for all types of licensure, including reciprocity and/or granting temporary licenses/permits. With the progression of Mobility legislation adopted by numerous jurisdictions, state boards can utilize CredentialNet to assist with individual substantial equivalency evaluations for practitioners nationwide.
ACCOUNTANCY LICENSEE DATABASE

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 currently simplifies the licensure verification process for more than 30 jurisdictions.

LEARNING MARKET (FORMERLY CPEMARKET)

Designed to be the trusted resource for continuing education, this new Web site combines the best of CPEmarket.com with an all new resource center for members of the National Registry of CPE Sponsors, Quality Assurance Service (QAS) and State Rosters. LearningMarket.org is the central location for all National Registry and QAS-related information, services and benefits. The objective of LearningMarket.org is to offer sponsors a single location for managing their Registry/QAS membership that also serves to promote the high-quality programs offered by members of the Registry and QAS.

Much like CPEmarket.com, LearningMarket.org will offer an advanced search tool to help CPAs and other professionals locate desired CPE programs.

NATIONAL REGISTRY OF CPE SPONSORS AND QUALITY ASSURANCE SERVICE

The National Registry of CPE Sponsors 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 state boards of accountancy, NASBA and the AICPA. Because of the respected standards and processes for approval, many boards accept and/or require, that CPE course credits be earned from sponsors recognized in these programs.

CALIBRATE (FORMERLY CPETRACKING)

Continuing Professional Education (CPE) provides a level of trust in the accounting profession for the public. It is a necessary element in maintaining the integrity of the CPA credential and encouraging continued professional success. In September 2010, NASBA introduced a new and enhanced professional career management tool, Calibrate, to revolutionize how the accounting profession, including state boards, manages professional growth.

Calibrate is a robust online system that helps state boards, individuals and firms manage CPE compliance. Calibrate maintains CPE credit information entered by the individual or firm and compares that information with current requirements of state boards of accountancy and other organizations (such as the AICPA, GAO and ERISA). 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.
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, professional design options. With superior custom design, production and processing, this service efficiently produces professional wall certificates that any administering board or regulatory agency can be proud to present. Other options include state-of-the-art printing, custom framing and distribution.

Once the CPA designation is received, professionals should be proud to tell colleagues, friends and family that they are “official.” When moving to the next level to become a practicing CPA, individuals may want something in addition to the Wall Certificate to display and celebrate achievement. NASBA also offers CPA Merchandise, which includes CPA-branded cufflinks, mugs, mouse pads and pens, and takes practicing professional to an entirely different level.

MEETINGS AND COMMUNICATIONS DIVISION

Throughout its 100-year history, NASBA has built a strong reputation for planning and hosting professional meetings and conferences for its members. With experience in planning and executing meetings and conferences for state boards, national associations and other accounting organizations, NASBA Meetings Division now offers this service to the public—including nonprofit organizations, associations and companies. Among the services provided are conference planning and execution, communications, marketing, graphics, print and video. This provides clients with a one-stop-shop for all meeting-related needs.

GUAM COMPUTER TESTING CENTER

NASBA’s Guam Computer Testing Center administers the CPA Examination and various other examinations including admissions exams, certification exams and the GRE to international candidates (primarily from Japan and Korea). The center’s prime location attracts many international candidates who travel to Guam to take these exams.
NASBA CENTER FOR THE PUBLIC TRUST

The NASBA Center for the Public Trust (CPT) exists to provide a platform for corporate America and the accounting profession to explore, promote and advance ethical practices. The CPT also acts as a mechanism to link the theoretical aspect of ethics to the practical aspect in professional activities. To achieve this goal, the NASBA CPT hosts seminars and conferences on ethics-related topics such as public trust, leadership, integrity and ethical decision-making.

The CPT promotes positive ethical behavior with its Being a Difference Awards. The Being a Difference Awards Program recognizes individuals practicing high standards of social responsibility and ethical leadership. Recipients do not simply aspire to make a difference. They are being a difference in their circumstances by embodying the very best in principled behavior. This national recognition program acknowledges individuals and organizations and has honored individuals from Fortune 500 companies, Olympic Athletes, a public utilities company, owners of small businesses, along with many quiet heroes in small communities.

The NASBA Center for the Public Trust has created the Student Center for the Public Trust (SCPT) to focus on educating and engaging future business leaders on ethics, accountability and integrity. Based on college campuses, the SCPT provides an interactive environment where ethical behaviors and ideas can flourish, while creating opportunities for students to network with the business community and develop professional leadership skills. The mission of the Student Center for the Public Trust (SCPT) is to promote ethical thinking in the developing character and conscience of students. The SCPT provides students with the opportunity to develop a real awareness of ethical issues which will provide a moral and ethical foundation for all future endeavors and create a better, more thoughtful world. As a non-profit, the NASBA Center for the Public Trust seeks contributions from individuals and corporations interested in impacting business ethics and ethical leadership.

PROFESSIONAL CREDENTIAL SERVICES, INC.

Established in 1998, Professional Credential Services, Inc. (PCS) is a wholly-owned subsidiary of NASBA and provides administrative, licensing and examination services to over 52 professions for regulatory boards and various associations, which include: engineering, land surveying, geology, landscape architecture, cosmetology, chiropractic, massage therapy, funeral directors, occupational therapy, professional planning, nursing, pharmacy, waste water management, supply chain, psychology, auctioneering, fire protection, radiology, interior design and podiatry.

Because of its relationship with an association of regulatory boards, PCS is attuned to the regulatory point of view and can offer the required services with impartiality and in the protection of the public. PCS is also in the unique position of being able to bring the distilled experience and knowledge garnered from years of working with boards of accountancy to the fulfillment of its responsibilities to serve all regulatory boards and other national associations.

The following list highlights specific services PCS currently provides its clients:

- Application Processing (paper, Web, phone registrations)
- Eligibility Determination
- Development and Distribution of Application Materials
- Paper/Pencil Examination Administration
- Practical Examination Administration
- CBT Exam Administration (through partnerships with CBT vendors)
- ADA Management
- Scoring and Reporting
- Licensing
- Wall Certificates
- Test Development

MANAGEMENT ADMINISTRATIVE SERVICES

Management Administrative Services (MAS) is a new division of PCS that will enable it to manage some or all functions of associations, small businesses and other organizations. MAS offers a wide range of services including standard back-office type services, as well as customized solutions such as membership management database services and interim CEO/Executive Director services.

PCS is firmly committed to providing all clients “Solutions That Exceed Expectations.”
FINANCIAL STATEMENTS
National Association of State Boards of Accountancy, Inc.  
And Related Organizations  

Consolidated Financial Statements  

July 31, 2010 and 2009
REPORT OF PRESIDENT & CHIEF EXECUTIVE OFFICER
AND OF CHIEF FINANCIAL OFFICER

September 24, 2010

We, David A. Costello, CPA, President & 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, 2010 and 2009, 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 & Chief Executive Officer

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

September 24, 2010

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 & Chief Executive Officer

Ken L. Bishop
Senior Vice President & Chief Operating Officer

Joseph T. Cote, CPA
Executive Vice President

Michael R. Bryant, CPA
Chief Financial Officer

Troy A. Walker, CPA
Controller
NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC. AND RELATED ORGANIZATIONS

MANAGEMENT’S DISCUSSION AND ANALYSIS

Fiscal 2010 was an active year for NASBA in fulfilling its mission of enhancing the effectiveness of state boards of accountancy. NASBA continues to provide numerous services to or on behalf of boards of accountancy. One of the more significant events to occur during Fiscal 2010 was the extension of the CBT Services Agreement. This extension of the agreement is through December 2024. Among other things, the agreement continues NASBA’s operation of the National Candidate Database and the associated services. The signing of this agreement helps to provide financial stability to NASBA for the over fourteen years remaining on the agreement.

Many of the activities and services of NASBA during the prior fiscal year continued during Fiscal 2010. One of these activities is the Accountancy Licensee Database. During Fiscal 2010, new states joined in participating in this service to boards of accountancy. Another service assisting boards of accountancy in regards to licensees is the continued efforts for mobility among states. In addition to these services, the second annual Forum of International Accountancy Regulators was held in September 2009. Many other services and activities were conducted through NASBA in Fiscal 2010, including committees focusing on matters concerning boards of accountancy, such as international delivery of the examination and enforcement issues, and conferences which brought forth information and discussion relevant to boards of accountancy.

Along with the preceding activities, NASBA continues to make improvements which provide enhanced and expanded services to and on behalf of boards of accountancy. These include the continued technology-based initiatives which assist boards of accountancy, in addition to their respective CPA Examination candidates and licensees. Also, improvements were made to NASBA’s information technology infrastructure to provide greater security and stability around operational systems. Similarly, efforts were started which will provide for efficiencies and cost reductions in various program services. These efforts will provide for an improved overall service and experience to boards of accountancy and those whom they represent.

Professional Credential Services, Inc. (“PCS”), a wholly-owned, for-profit subsidiary of NASBA, offers examination, licensing, certification and association management services to various entities. In Fiscal 2010, PCS enjoyed another successful year of growth and profitability. In addition, PCS worked to improve and increase operational efficiencies during the fiscal year, similar to NASBA. Business development efforts included a focus on expanding operations in current client states and continuing to lay the groundwork for the Management Administrative Services (MAS) division which offers operational support services to associations. PCS, though MAS, is expanding services provided to existing clients and marketing its services to attract new clients.

The NASBA Center for the Public Trust (“NCPT”) focused on its ethics-centered programs related to their mission to engender and foster confidence and trust in American corporations and institutions and the professions that serve them. An exciting national program initiated in Fiscal 2010 was the Student Center for the Public Trust. This program, based on college and university campuses, focuses on educating and engaging future business leaders on ethics, accountability and integrity. The first operating chapter was established at Lipscomb University in Nashville, Tennessee during the current year with others scheduled to launch in the next fiscal year. In addition to this new program, NCPT continued its sponsorship of conferences, such as Ensuring Integrity: Fourth Annual Auditing Conference, and its award programs to individuals and businesses which have demonstrated ethics and integrity.

**Program Revenues**

Total consolidated revenue in Fiscal 2010 was $33.7 million compared to $31.4 million in Fiscal 2009. This is an increase of 7.3% from the prior year. The following table compares operating revenue by program for Fiscal 2010 and 2009:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2010</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination related</td>
<td>$29.6</td>
<td>$27.5</td>
<td>7.6%</td>
</tr>
<tr>
<td>Other programs</td>
<td>3.7</td>
<td>3.5</td>
<td>5.7%</td>
</tr>
<tr>
<td>Member dues and other revenue</td>
<td>0.4</td>
<td>0.4</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$33.7</td>
<td>$31.4</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

The total number of candidates and related sections for the CPA Examination increased over the prior year once again in Fiscal 2010. This examination related increase resulted in additional revenue for CPA Examination Services, CBT Contract Services and the Guam Test Center. In addition, CPA Examination Services added a new client state during Fiscal 2010. This additional state brings the total to thirty-two boards of accountancy served by NASBA through CPA Examination Services. Revenue generated from sections processed through the National
Candidate Database increased by 4.3% over Fiscal 2009. For the Guam Test Center, sections scheduled during Fiscal 2010 increased by 14.3% over the prior fiscal year.

Along with the increased revenue resulting from additional candidates, revenue from escrow management fees related to the CPA Examination increased over the prior year. Higher interest rates, on average, during Fiscal 2010 were earned than in the prior year on these funds which are held in fully-insured securities or interest-bearing accounts.

Revenue from services assisting boards of accountancy related to licensees also increased over the prior fiscal year. Factors driving the increased revenue are additional CPE Registry sponsors, additional licensure services provided to boards of accountancy, and increased sales of the Calibrate (formerly CPEtracking) compliance product.

Revenue generated from services provided by PCS also increased during Fiscal 2010 as compared to Fiscal 2009. In total, revenue for PCS increased by 7.2% over the prior year. The additional revenue resulted both from increased candidates related to existing contracts and additional revenue in Fiscal 2010 from contracts signed at the end of the prior fiscal year or during the current fiscal year.

Program Expenses
Total consolidated operating expenses were $32.8 million in Fiscal 2010 compared to $30.0 million in Fiscal 2009, an increase of 9.3%. The following table compares operating expenses by program for Fiscal 2010 and 2009:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2010</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination related</td>
<td>$26.7</td>
<td>$25.1</td>
<td>6.4%</td>
</tr>
<tr>
<td>Other programs</td>
<td>3.5</td>
<td>3.0</td>
<td>16.7%</td>
</tr>
<tr>
<td>Communications</td>
<td>2.6</td>
<td>1.9</td>
<td>36.8%</td>
</tr>
<tr>
<td>Total</td>
<td>$32.8</td>
<td>$30.0</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

Expense variations for Fiscal 2010 from 2009 amounts by caption are presented in the following table:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2010</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and related costs</td>
<td>$17.7</td>
<td>$16.2</td>
<td>9.3%</td>
</tr>
<tr>
<td>Professional fees</td>
<td>1.8</td>
<td>1.6</td>
<td>12.5%</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>2.6</td>
<td>1.8</td>
<td>44.4%</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1.4</td>
<td>1.2</td>
<td>16.7%</td>
</tr>
<tr>
<td>Other captions</td>
<td>9.3</td>
<td>9.2</td>
<td>1.1%</td>
</tr>
<tr>
<td>Total</td>
<td>$32.8</td>
<td>$30.0</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

Examination related program expenses increased by 6.4% in Fiscal 2010 as compared to the prior year. A significant amount of the increase results from additional personnel, professional fees and travel costs incurred over the prior year. These increased costs are primarily related to the administration and oversight of the CPA Examination on behalf of state boards.

A substantial portion of the Fiscal 2010 increase in other programs as compared to Fiscal 2009 results from travel and meeting expenses. These costs were incurred for the inaugural conference of a program designed to bring together licensees, CPE service providers, exhibitors, and state board of accountancy representatives. Salaries and related costs for other programs were increased over the prior fiscal year also.

Expenses for communications increased in Fiscal 2010 over the prior year primarily as a result of increased travel and meeting expenses for committees and conferences, along with, knowledge and awareness efforts on behalf of state boards of accountancy and NASBA. In addition, salaries and related costs, marketing and expenses related to the ethics-focused activities of NPCT increased in Fiscal 2010 as compared to the prior year.

In addition to the expenses discussed above, depreciation and amortization expense increased during Fiscal 2010 as compared to the prior fiscal year. This increase is attributable to internal use software for which amortization of the software development costs began during Fiscal 2010.
Other Income
In addition to operating revenues, NASBA had income of $300,000 in Fiscal 2010 resulting from the resolution of a contractual issue related to the CBT Services Agreement.

Investment Income (Loss)
Total investment income for Fiscal 2010 was $1.1 million, a $1.8 million variance from the investment loss experienced in Fiscal 2009. With the continuance of the market gains which began in the latter part of Fiscal 2009, the total net gain in market value on long-term investments in Fiscal 2010 was $0.8 million. In Fiscal 2009, a net loss on long-term investments of $1.0 million resulted. Interest and dividends of $0.3 million from both long-term and short-term investments comprise the remaining portion of investment income (loss) in both Fiscal 2010 and 2009. The following chart displays the net investment income (loss) and the components of the net amount for each fiscal year.

![Investment Income (Loss) Chart]

The total return for NASBA’s long-term fund for Fiscal 2010 and 2009 was 11.8% and -9.6%, respectively.

Cash Flow and Financial Position
Cash provided by operating activities was $4.4 million in Fiscal 2010 as compared to $2.5 million in Fiscal 2009. Cash used in investing activities was $2.5 million in Fiscal 2010 as compared to $3.8 million in Fiscal 2009. As a result of these activities and financing activities, in Fiscal 2010, net cash increased by $1.9 million compared to a decrease of $1.3 million in Fiscal 2009. A considerable portion of the Fiscal 2010 year-end increase relates to examination fees collected and, correspondingly, the increase in current liabilities represents the portion of those collections that will be paid to various vendors and examination partners.

In addition to the increase in cash and cash equivalents at July 31, 2010, consolidated investment securities increased by $2.1 million from the prior period. Along with the net gain in market value and dividends reinvested during the fiscal year, an additional $1.1 million was transferred from the operating fund to long-term investments.

Software development costs at July 31, 2010 increased over the prior fiscal year by $0.8 million. Software development costs are associated with internal use software utilized in examination and licensing services. The increase during Fiscal 2010 relates to both the completion of Calibrate, a functionally-enhanced rebranded version of CPETracking, and software for all of NASBA’s operations-related processes and services.

Fiscal 2010 was once again another outstanding year for NASBA and marks the eighth consecutive year of increases in NASBA’s unrestricted net assets. During this period, unrestricted net assets have grown by $12.7 million, almost four times since the trend began in 2003. In addition to the creation of sustainable financial operations, NASBA has sought to innovate by expanding current services and also through new program and service initiatives. NASBA’s strong capability to enhance the effectiveness, support the continuance, and promote the importance of boards of accountancy to both the domestic and international community is built upon the sound financial management of the organization. NASBA’s strong financial position provides the foundation for continued momentum in its service to boards of accountancy.
REPORT OF AUDIT COMMITTEE

September 24, 2010

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, 2010, was charged by the Board of Directors with the responsibility for oversight of the annual independent audit of the consolidated financial statements.

In connection with the discharge of its responsibility,

• Prior to commencement of the year-end audit work, the Committee met with the independent auditors to discuss (1) the overall scope and specific plans for the conduct of the audit and (2) the accounting, reporting and internal control processes and procedures of the National Association of State Boards of Accountancy, Inc. and Related Organizations, including the safeguarding of assets and other resources against unauthorized acquisition, use or disposition;

• The Committee held a meeting to review the Audit Committee Charter, which governs the Committee’s scope of responsibilities and actions, and to assess any proposed charter changes for recommendation to the Board of Directors;

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

• 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, 2011.

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, 2010.

Respectfully submitted,

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

David D. Durfee, CPA, Chair, on behalf of the Members of the Committee as follows:
Kenneth J. Hull, CPA
Rebecca L. Phillips, CPA
Michael M. Vekich, CPA
Harris W. Widmer, 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, 2010 and 2009, 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, 2010 and 2009, 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.

[Signature]
Brentwood, Tennessee
September 24, 2010
## CONSOLIDATED STATEMENTS OF ACTIVITIES
For Years Ended July 31,

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination related</td>
<td>$29,588,812</td>
<td>$27,498,360</td>
</tr>
<tr>
<td>Other programs</td>
<td>3,733,008</td>
<td>3,512,424</td>
</tr>
<tr>
<td>Member dues and other revenue</td>
<td>400,657</td>
<td>426,471</td>
</tr>
<tr>
<td><strong>Total program revenues</strong></td>
<td>$33,722,477</td>
<td>$31,437,255</td>
</tr>
<tr>
<td><strong>Program Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination related</td>
<td>26,646,123</td>
<td>25,068,465</td>
</tr>
<tr>
<td>Other programs</td>
<td>3,487,528</td>
<td>3,032,239</td>
</tr>
<tr>
<td>Communications</td>
<td>2,633,981</td>
<td>1,885,031</td>
</tr>
<tr>
<td><strong>Total program expenses</strong></td>
<td>$32,767,632</td>
<td>$29,985,735</td>
</tr>
<tr>
<td><strong>Excess of Program Revenues Over Program Expenses</strong></td>
<td>$954,845</td>
<td>$1,451,520</td>
</tr>
<tr>
<td><strong>Income from Contract Issue</strong></td>
<td>$300,000</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets Before Investment Income (Loss) and Income Taxes</strong></td>
<td>$1,254,845</td>
<td>$1,451,520</td>
</tr>
<tr>
<td><strong>Investment Income (Loss)</strong></td>
<td>$1,138,973</td>
<td>$(684,411)</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets Before Income Taxes</strong></td>
<td>$2,393,818</td>
<td>767,109</td>
</tr>
<tr>
<td><strong>Income Tax Expense</strong></td>
<td>$133,300</td>
<td>103,900</td>
</tr>
<tr>
<td><strong>Increase in Unrestricted Net Assets</strong></td>
<td>$2,260,518</td>
<td>$663,209</td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets, Beginning of Year</strong></td>
<td>$15,072,888</td>
<td>$14,409,679</td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets, End of Year</strong></td>
<td>$17,333,406</td>
<td>$15,072,888</td>
</tr>
</tbody>
</table>

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

### CONSOLIDATED STATEMENTS OF PROGRAM EXPENSES

<table>
<thead>
<tr>
<th>Year Ended July 31, 2010</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>$ 5,718,585</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 5,718,585</td>
</tr>
<tr>
<td>Salaries and related costs</td>
<td>15,316,050</td>
<td>1,882,219</td>
<td>500,241</td>
<td>17,698,510</td>
</tr>
<tr>
<td>Occupancy</td>
<td>917,818</td>
<td>228,571</td>
<td>157,012</td>
<td>1,303,401</td>
</tr>
<tr>
<td>Professional fees</td>
<td>1,107,630</td>
<td>322,379</td>
<td>321,712</td>
<td>1,751,721</td>
</tr>
<tr>
<td>Printing and postage</td>
<td>412,176</td>
<td>60,272</td>
<td>72,985</td>
<td>545,433</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>927,964</td>
<td>429,304</td>
<td>1,267,574</td>
<td>2,624,842</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,089,108</td>
<td>211,929</td>
<td>104,088</td>
<td>1,405,125</td>
</tr>
<tr>
<td>Telephone</td>
<td>151,418</td>
<td>26,638</td>
<td>21,640</td>
<td>199,696</td>
</tr>
<tr>
<td>Equipment rentals</td>
<td>316,388</td>
<td>80,525</td>
<td>21,555</td>
<td>418,468</td>
</tr>
<tr>
<td>Marketing</td>
<td>119,642</td>
<td>144,788</td>
<td>106,980</td>
<td>371,410</td>
</tr>
<tr>
<td>Insurance</td>
<td>194,601</td>
<td>17,532</td>
<td>1,805</td>
<td>213,938</td>
</tr>
<tr>
<td>Supplies</td>
<td>137,137</td>
<td>13,183</td>
<td>8,044</td>
<td>158,364</td>
</tr>
<tr>
<td>Other</td>
<td>237,606</td>
<td>70,188</td>
<td>50,345</td>
<td>358,139</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$ 26,646,123</td>
<td>$ 3,487,528</td>
<td>$ 2,633,981</td>
<td>$ 32,767,632</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Ended July 31, 2009</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>$ 5,652,656</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 5,652,656</td>
</tr>
<tr>
<td>Salaries and related costs</td>
<td>14,263,603</td>
<td>1,685,641</td>
<td>212,381</td>
<td>16,161,625</td>
</tr>
<tr>
<td>Occupancy</td>
<td>941,829</td>
<td>252,035</td>
<td>142,928</td>
<td>1,336,792</td>
</tr>
<tr>
<td>Professional fees</td>
<td>952,512</td>
<td>339,535</td>
<td>295,509</td>
<td>1,587,556</td>
</tr>
<tr>
<td>Printing and postage</td>
<td>378,647</td>
<td>66,011</td>
<td>66,231</td>
<td>510,889</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>667,725</td>
<td>169,576</td>
<td>965,154</td>
<td>1,802,455</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,030,024</td>
<td>125,320</td>
<td>66,757</td>
<td>1,222,101</td>
</tr>
<tr>
<td>Telephone</td>
<td>165,928</td>
<td>24,803</td>
<td>22,237</td>
<td>212,968</td>
</tr>
<tr>
<td>Equipment rentals</td>
<td>284,508</td>
<td>93,297</td>
<td>33,505</td>
<td>411,310</td>
</tr>
<tr>
<td>Marketing</td>
<td>68,461</td>
<td>179,362</td>
<td>25,725</td>
<td>273,548</td>
</tr>
<tr>
<td>Insurance</td>
<td>210,421</td>
<td>18,027</td>
<td>2,245</td>
<td>230,693</td>
</tr>
<tr>
<td>Supplies</td>
<td>137,137</td>
<td>13,183</td>
<td>8,044</td>
<td>158,364</td>
</tr>
<tr>
<td>Other</td>
<td>320,182</td>
<td>70,188</td>
<td>50,345</td>
<td>440,615</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$ 25,068,465</td>
<td>$ 3,032,239</td>
<td>$ 1,885,031</td>
<td>$ 29,985,735</td>
</tr>
</tbody>
</table>

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

**July 31,**

### Assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$9,051,428</td>
<td>$7,199,512</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,773,099</td>
<td>1,708,977</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>374,622</td>
<td>392,569</td>
</tr>
<tr>
<td>Deferred income taxes, net of allowance</td>
<td>166,700</td>
<td>193,300</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>11,365,849</td>
<td>9,494,358</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>10,324,342</td>
<td>8,172,320</td>
</tr>
<tr>
<td>Deferred income taxes, net of allowance</td>
<td>59,000</td>
<td>142,100</td>
</tr>
<tr>
<td>Other</td>
<td>60,143</td>
<td>60,674</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>10,443,485</td>
<td>8,375,094</td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td>5,998,887</td>
<td>5,658,752</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>3,080,819</td>
<td>2,494,915</td>
</tr>
<tr>
<td><strong>Net property and equipment</strong></td>
<td>2,918,068</td>
<td>3,163,837</td>
</tr>
<tr>
<td><strong>Software Development Costs</strong></td>
<td>5,400,807</td>
<td>4,601,716</td>
</tr>
<tr>
<td>Less accumulated amortization</td>
<td>3,461,281</td>
<td>2,798,390</td>
</tr>
<tr>
<td><strong>Net software development costs</strong></td>
<td>1,939,526</td>
<td>1,803,326</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$26,666,928</td>
<td>$22,836,615</td>
</tr>
</tbody>
</table>

### Liabilities and Unrestricted Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$7,523,602</td>
<td>$5,858,281</td>
</tr>
<tr>
<td>Deferred revenues</td>
<td>858,921</td>
<td>1,074,077</td>
</tr>
<tr>
<td>Capital lease, current portion</td>
<td>29,156</td>
<td>-</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>52,245</td>
<td>55,781</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>8,463,924</td>
<td>6,988,139</td>
</tr>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital lease, non-current</td>
<td>93,841</td>
<td>-</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>775,757</td>
<td>775,588</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>869,598</td>
<td>775,588</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>9,333,522</td>
<td>7,763,727</td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets</strong></td>
<td>17,333,406</td>
<td>15,072,888</td>
</tr>
<tr>
<td><strong>Total liabilities and unrestricted net assets</strong></td>
<td>$26,666,928</td>
<td>$22,836,615</td>
</tr>
</tbody>
</table>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS  
For Years Ended July 31,

### Operating Activities  
<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in unrestricted net assets</td>
<td>$ 2,260,518</td>
</tr>
<tr>
<td>Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization of property and equipment</td>
<td>742,234</td>
</tr>
<tr>
<td>Amortization of software development costs</td>
<td>662,891</td>
</tr>
<tr>
<td>Net (gains) losses on investment securities</td>
<td>(801,247)</td>
</tr>
<tr>
<td>Reduction of deferred rent credit</td>
<td>(47,942)</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>109,700</td>
</tr>
<tr>
<td>Net losses on disposal of property and equipment</td>
<td>14,573</td>
</tr>
<tr>
<td>Changes in assets and liabilities (Increase) decrease in:</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(64,122)</td>
</tr>
<tr>
<td>Prepaid expenses and other non-current assets</td>
<td>18,478</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable, accrued expenses, and other liabilities</td>
<td>1,709,896</td>
</tr>
<tr>
<td>Deferred revenues</td>
<td>(215,156)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>4,389,823</td>
</tr>
</tbody>
</table>

### Investing Activities  
<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment additions</td>
<td>(385,676)</td>
</tr>
<tr>
<td>Capitalized software development costs</td>
<td>(799,091)</td>
</tr>
<tr>
<td>Purchases of investment securities</td>
<td>(2,654,285)</td>
</tr>
<tr>
<td>Redemptions of investment securities</td>
<td>1,303,510</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(2,535,542)</td>
</tr>
</tbody>
</table>

### Financing Activities  
<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal payments on capital leases</td>
<td>(2,365)</td>
</tr>
<tr>
<td>Net cash used by financing activities</td>
<td>(2,365)</td>
</tr>
</tbody>
</table>

### Net Increase (Decrease) in Cash and Cash Equivalents  
<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,851,916</td>
<td>(1,331,722)</td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents, Beginning of Year  
<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,199,512</td>
<td>8,531,234</td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents, End of Year  
<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 9,051,428</td>
<td>$ 7,199,512</td>
</tr>
</tbody>
</table>

### Supplemental Cash Flow Information  
<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>$ 522</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>$ 103,574</td>
</tr>
<tr>
<td>Capital lease obligation incurred</td>
<td>$ 125,362</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 nonprofit voluntary membership association of the boards of accountancy (or their equivalent) in the fifty states of the United States of America, the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico and the U.S. Virgin Islands. The Association’s assets are limited to use or distribution in accordance with its Articles of Incorporation. The Association has a wholly-owned, for profit subsidiary, Professional Credential 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 and sustainment 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 involve boards of accountancy. Also included in communication programs are the activities of NCPT.

Note 2. Significant Accounting Policies

Accounting codification
In June 2009, the Financial Accounting Standards Board (“FASB”) issued The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which is effective for periods ending after September 15, 2009 and makes the FASB Accounting Standards Codification the sole source of authoritative accounting technical literature for nongovernmental entities in the United States of America. The Codification did not change U.S. Generally Accepted Accounting Principles (“GAAP”), but rather only affected the specific references to GAAP literature in the notes to the Association and related organizations’ financial statements.

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. The Association and related organizations anticipate collection within 30 days unless otherwise specified. The carrying amount of accounts receivable is evaluated and reduced by a valuation allowance, if necessary. The need for an allowance is determined based on management’s knowledge of its customers, historical loss experience and existing economic conditions. Management has determined that no allowance is required at July 31, 2010 or 2009.

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 investment funds. Investments are made in accordance with an investment policy approved by the Board of Directors. The Association’s investments are valued at fair value in accordance with the FASB Fair Value Measurements and Disclosures Topic. These investments are discussed more fully in Note 4. Derivative financial instruments are not permitted investments under the Association’s policy except as components of permitted investment funds. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could be materially different from 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 and PCS capitalize and amortize certain costs associated with the development of software for internal use. These costs are amortized over the software’s useful life or, if shorter, the period for which contractual services that utilize the software are rendered. Amortization begins when the software is ready for its intended use.

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 and licensing fees are recognized as revenue when the services to which they relate have been completed. Other program fees for services provided over a period of time are recognized ratably during the period. Fees for conferences and meetings, and related expenses, are recognized when the event occurs.

Management and administrative costs

Management 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 the estimated tax benefit of carryforwards and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Use of estimates

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

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.
Note 2. Significant Accounting Policies (Continued)
Subsequent events
The Association and related organizations have evaluated events and transactions that occurred from the date of the financial statements through September 24, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. No subsequent events require adjustments to or disclosure in the financial statements.

Note 3. Investment Securities, at fair value
Investment securities owned by the Association and related organizations are required under the Board-approved investment policy to meet certain criteria as to allowable asset classes and the composition of investments within those classes. Diversification of the portfolio is managed through three primary asset classes of equity, fixed income and alternative strategy investments. The alternative strategy asset class provides portfolio risk-versus-return characteristics that are attractive from a diversification standpoint in that such investment funds are not correlated with the equity and fixed income asset classes. Additional information on the asset classes is disclosed in Note 4. At July 31, all of the Association and related organizations' investment securities were invested in mutual funds and exchange traded funds and each of the asset classes were primarily invested in the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury and other Federal Agency obligations</td>
<td>$2,352,113</td>
<td>$1,947,709</td>
</tr>
<tr>
<td>Corporate and other debt obligations</td>
<td>1,164,085</td>
<td>1,162,614</td>
</tr>
<tr>
<td>Equity securities</td>
<td>6,570,684</td>
<td>5,061,997</td>
</tr>
<tr>
<td>Other securities</td>
<td>237,460</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Investment Securities</strong></td>
<td><strong>$10,324,342</strong></td>
<td><strong>$8,172,320</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends, net of investment fees of $49,659 and $37,686</td>
<td>$337,726</td>
<td>$325,855</td>
</tr>
<tr>
<td>Net realized and unrealized gains (losses) on investments</td>
<td>801,247</td>
<td>(1,010,266)</td>
</tr>
<tr>
<td><strong>Total Investment Income (Loss)</strong></td>
<td><strong>$1,138,973</strong></td>
<td><strong>($684,411)</strong></td>
</tr>
</tbody>
</table>

Note 4. Fair Value Measurement
The Fair Value Measurement and Disclosures Topic clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures for fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

At July 31, 2010 and 2009, the valuation method used for asset measurement measured at fair value for investment securities is the last reported sales price on the last business day of the fiscal year reported by the active markets in which the individual securities are traded (Level 1), which approximates fair value. There have been no changes in the method used.
Note 4. Fair Value Measurement (Continued)
The fair value measurements for the Association and related organizations’ investment securities, of which the entire amount is invested in mutual funds and exchange traded funds, at July 31 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Large-Cap</td>
<td>$2,905,302</td>
<td>$2,487,746</td>
</tr>
<tr>
<td>U.S. Mid-Cap</td>
<td>563,628</td>
<td>700,593</td>
</tr>
<tr>
<td>U.S. Small-Cap</td>
<td>634,661</td>
<td>531,342</td>
</tr>
<tr>
<td>International</td>
<td>1,882,256</td>
<td>1,342,316</td>
</tr>
<tr>
<td>Alternative strategies</td>
<td>584,837</td>
<td>-</td>
</tr>
<tr>
<td>Fixed income securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government, corporate</td>
<td>2,352,113</td>
<td>1,947,709</td>
</tr>
<tr>
<td>High yield</td>
<td>545,371</td>
<td>421,598</td>
</tr>
<tr>
<td>International</td>
<td>618,714</td>
<td>741,016</td>
</tr>
<tr>
<td>Other securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternative strategies</td>
<td>237,460</td>
<td>-</td>
</tr>
<tr>
<td>Total Investment Securities</td>
<td>$10,324,342</td>
<td>$8,172,320</td>
</tr>
</tbody>
</table>

The carrying amounts for cash, cash equivalents, receivables, accounts payable and certain other assets and liabilities approximate fair value due to the short-term maturity of these financial instruments.

As of August 1, 2009, the Association and related organizations adopted the provisions prospectively for nonfinancial assets and liabilities that are not required to be measured at fair value on a recurring basis. The Association’s nonfinancial assets include property, equipment and software development costs. If certain triggering events occur, a resulting asset impairment would require that the nonfinancial asset be recorded at fair value. During fiscal 2010, the Association and related organizations did not measure any nonfinancial assets at fair value or recognize any amounts in the financial statements related to changes in fair value for nonfinancial assets.

Note 5. Property and Equipment
Property and equipment at July 31 consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office and computer equipment</td>
<td>$2,745,347</td>
<td>$2,458,229</td>
</tr>
<tr>
<td>Furniture</td>
<td>1,547,540</td>
<td>1,499,046</td>
</tr>
<tr>
<td>Building and leasehold improvements</td>
<td>1,706,000</td>
<td>1,701,477</td>
</tr>
<tr>
<td>Total Property and Equipment</td>
<td>5,998,887</td>
<td>5,658,752</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(3,080,819)</td>
<td>(2,494,915)</td>
</tr>
<tr>
<td>Net Property and Equipment</td>
<td>$2,918,068</td>
<td>$3,163,837</td>
</tr>
</tbody>
</table>
**Note 6. Contract to Provide Examination Services**

Effective December 31, 2009, the Association entered into an amended and restated 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 expires on December 31, 2014 between the Association, AICPA and Prometric and expires on December 31, 2024 between the Association and AICPA. The initial term, number of renewal options and renewal terms for each party to the Agreement are as follows:

<table>
<thead>
<tr>
<th>Parties to the Agreement</th>
<th>Initial Term</th>
<th>Number of Renewal Options</th>
<th>Renewal Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Association and AICPA</td>
<td>15 years</td>
<td>Unlimited</td>
<td>2 years</td>
</tr>
<tr>
<td>The Association, AICPA and Prometric</td>
<td>5 years</td>
<td>2</td>
<td>5 years</td>
</tr>
</tbody>
</table>

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, 2010 and 2009, escrowed funds amounted to $26,924,872 and $24,359,238, 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 7. Retirement Plans and Other Postretirement Benefits**

The Association maintains a 401(k) plan which allows employer contributions for all full-time employees meeting specified requirements and employee contributions. Expenses related to the Association’s funding of the retirement plan amounted to approximately $761,000 for 2010 and $686,000 for 2009. The Association funds 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, 2010 and 2009, the accumulated postretirement benefit obligation was determined by actuarial valuation to be $170,053 ($163,272 noncurrent and $6,781 current) and $160,399 ($146,760 noncurrent and $13,639 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>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$15,951</td>
<td>$14,345</td>
</tr>
<tr>
<td>Interest cost</td>
<td>7,712</td>
<td>8,432</td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>(6,526)</td>
<td>12,774</td>
</tr>
<tr>
<td>Net periodic postretirement benefit cost</td>
<td>17,137</td>
<td>35,551</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>8,645</td>
<td>8,559</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(16,128)</td>
<td>(15,854)</td>
</tr>
<tr>
<td>Net change in benefit obligation</td>
<td>9,654</td>
<td>28,256</td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>160,399</td>
<td>132,143</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>$170,053</td>
<td>$160,399</td>
</tr>
</tbody>
</table>
Note 7. Retirement Plans and Other Postretirement Benefits (Continued)
The discount rate used to value the obligation was 5.00% in 2010 and 5.75% in 2009. The assumed medical trend rate is 7.5% declining to 4% over a period of 7 years and the assumed dental trend rate is a constant 4%. The effect on 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>1% Increase in Rates</th>
<th>1% Decrease in Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Postretirement Benefit Obligation Effect</td>
<td>$ 18,762</td>
</tr>
</tbody>
</table>

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 $7,483 and $7,295 for 2010 and 2009, 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 2011</td>
<td>$ 6,781</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>11,120</td>
</tr>
<tr>
<td>Fiscal 2013</td>
<td>14,038</td>
</tr>
<tr>
<td>Fiscal 2014</td>
<td>12,092</td>
</tr>
<tr>
<td>Fiscal 2015</td>
<td>17,198</td>
</tr>
<tr>
<td>Fiscal 2016 through 2020</td>
<td>49,323</td>
</tr>
</tbody>
</table>

Note 8. Capital Lease
During fiscal 2010, the Association leased office equipment under a capital lease. The Association is obligated at July 31, 2010 with future minimum lease payments as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2011</td>
<td>$ 34,644</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>34,644</td>
</tr>
<tr>
<td>Fiscal 2013</td>
<td>34,644</td>
</tr>
<tr>
<td>Fiscal 2014</td>
<td>31,757</td>
</tr>
<tr>
<td>Minimum lease payments</td>
<td>135,689</td>
</tr>
<tr>
<td>Less imputed interest</td>
<td>12,692</td>
</tr>
<tr>
<td>Present value of future lease payments</td>
<td>122,997</td>
</tr>
<tr>
<td>Less non-current portion</td>
<td>93,841</td>
</tr>
<tr>
<td>Current Obligation</td>
<td>$ 29,156</td>
</tr>
</tbody>
</table>

The depreciated cost of the office equipment under the capital lease is approximately $123,000 at July 31, 2010.

Note 9. Lease Commitments
The Association leases office space, a portion of which is subleased to PCS, under operating leases that expire at various dates through 2017. 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 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>Fiscal 2014</td>
<td>1,156,188</td>
</tr>
<tr>
<td>Fiscal 2015</td>
<td>1,190,269</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2,570,219</td>
</tr>
<tr>
<td>Minimum Lease Payments</td>
<td>$ 8,490,397</td>
</tr>
</tbody>
</table>

Rent expense charged to operations for office space in 2010 and 2009 totaled approximately $1,303,000 and $1,337,000, respectively.
Note 10. Other Commitments
During fiscal 2010, the Association and PCS entered into various service agreements. Minimum payments remaining for these commitments are approximately $246,000 in fiscal 2011, $246,000 in fiscal 2012, $178,000 in fiscal 2013, $119,000 in fiscal 2014 and $119,000 in fiscal 2015.

Note 11. Income Taxes
Income tax expense comprises the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>15,700</td>
<td>68,800</td>
</tr>
<tr>
<td>State</td>
<td>7,900</td>
<td>4,500</td>
</tr>
<tr>
<td>Deferred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. federal</td>
<td>105,700</td>
<td>28,800</td>
</tr>
<tr>
<td>State</td>
<td>4,000</td>
<td>1,800</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>$133,300</td>
<td>$103,900</td>
</tr>
</tbody>
</table>

In 2010 and 2009, income tax expense includes a benefit of $93,400 ($87,000 federal and $6,400 state) and $53,500 ($41,100 federal, $8,200 state and $4,200 Puerto Rico), respectively, from the utilization of net operating loss carryforwards.

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></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory federal income tax</td>
<td>$102,400</td>
<td>$59,300</td>
</tr>
<tr>
<td>Puerto Rico income tax, net of U.S. federal benefit</td>
<td>10,400</td>
<td>41,200</td>
</tr>
<tr>
<td>State income taxes, net of U.S. federal benefit</td>
<td>13,400</td>
<td>9,100</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>(5,700)</td>
<td>(22,200)</td>
</tr>
<tr>
<td>Other</td>
<td>12,800</td>
<td>16,500</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>$133,300</td>
<td>$103,900</td>
</tr>
</tbody>
</table>

The deferred income tax asset consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred income tax asset - current</td>
<td>$169,000</td>
<td>$201,300</td>
</tr>
<tr>
<td>Deferred income tax asset - long-term</td>
<td>98,900</td>
<td>159,100</td>
</tr>
<tr>
<td>Valuation allowance</td>
<td>(2,300)</td>
<td>(8,000)</td>
</tr>
<tr>
<td>Total deferred income tax asset</td>
<td>265,600</td>
<td>352,400</td>
</tr>
<tr>
<td>Deferred income tax liability - long-term</td>
<td>39,900</td>
<td>17,000</td>
</tr>
<tr>
<td>Net Deferred Income Tax Asset</td>
<td>$225,700</td>
<td>$335,400</td>
</tr>
</tbody>
</table>

At July 31, 2010, PCS had federal and state net operating loss carryforwards of approximately $472,000 and $360,000, respectively. The carryforwards expire at various dates from July 31, 2022 through 2025 for federal tax purposes and July 31, 2013 through 2025 for state tax purposes. The valuation allowance relates to 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 11. Income Taxes (Continued)
As of August 1, 2009, the Association and related organizations adopted the Income Taxes Topic related to uncertainty in income taxes. It prescribes an evaluation process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The provisions related to uncertainty in income taxes were applied to all tax positions upon adoption. This adoption had no impact on the Association and related organizations’ financial statements. As of July 31, 2010, the Association and related organizations have accrued no interest and penalties related to uncertain tax positions. It is the Association and related organizations’ policy to recognize interest and penalties related to income tax matters in other expense. In general, the Association and PCS are no longer subject to examinations by tax authorities for U.S. federal, various state or Puerto Rico income tax returns before fiscal 2007.

Note 12. Income from Contract Issue
As a part of the initial CBT Services Agreement effective May 31, 2002, Prometric was required to obtain and maintain insurance policies for certain specific perils, coverage amounts, terms and conditions naming the Association and its member boards as additional insureds. During fiscal 2010, the Association asserted that Prometric failed to comply with certain applicable insurance requirements. Prometric denied the assertions but, in resolution of the matter, provided evidence that it had come into compliance, agreed to indemnify, hold harmless and defend for any coverage lapses, and paid $300,000 to the Association. In addition, Prometric reimbursed the Association for certain legal and administrative expenses related to the resolution.
MOMENTUM IS ACTION;
MOMENTUM IS MOVEMENT;
MOMENTUM IS EXCITEMENT;
MOMENTUM IS NASBA.