

**NASBA CENTER FOR THE
PUBLIC TRUST**

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

JULY 31, 2018 and 2017

NASBA CENTER FOR THE PUBLIC TRUST

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INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of NASBA and the
NASBA Center for the Public Trust
Nashville, Tennessee

We have audited the accompanying financial statements of the NASBA Center for the Public Trust (a nonprofit organization), which comprise the statements of activities and functional expenses for the years ended July 31, 2018 and 2017, the related statements of financial position as of July 31, 2018 and 2017, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the changes in net assets of the NASBA Center for the Public Trust for the years ended July 31, 2018 and 2017, and the financial position as of July 31, 2018 and 2017 and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Accounting Standard

As discussed in Note 2, the NASBA Center for the Public Trust has adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ("ASU 2016-14"), which revises certain financial reporting requirements. Our opinion is not modified with respect to that matter.

LBMC, PC

Brentwood, Tennessee
September 20, 2018

NASBA CENTER FOR THE PUBLIC TRUST

STATEMENTS OF ACTIVITIES

For Years Ended July 31,

In thousands

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions	\$ 362	\$ 30	\$ 392	\$ 588	\$ 40	\$ 628
Services received from affiliate personnel	245	-	245	262	-	262
Programs	202	-	202	144	-	144
Investment income	-	7	7	-	11	11
Net assets released from restrictions	13	(13)	-	8	(8)	-
Total revenue and support	<u>822</u>	<u>24</u>	<u>846</u>	<u>1,002</u>	<u>43</u>	<u>1,045</u>
Program Expenses						
Ethics Advancement	194	-	194	191	-	191
Student Center for the Public Trust	343	-	343	422	-	422
Conferences	23	-	23	19	-	19
Total program expenses	<u>560</u>	<u>-</u>	<u>560</u>	<u>632</u>	<u>-</u>	<u>632</u>
Supporting Expenses						
Administrative	62	-	62	52	-	52
Development	122	-	122	140	-	140
Total supporting expenses	<u>184</u>	<u>-</u>	<u>184</u>	<u>192</u>	<u>-</u>	<u>192</u>
Total expenses	<u>744</u>	<u>-</u>	<u>744</u>	<u>824</u>	<u>-</u>	<u>824</u>
Increase in Net Assets	78	24	102	178	43	221
Net Assets (Deficit), Beginning of Year	<u>83</u>	<u>183</u>	<u>266</u>	<u>(95)</u>	<u>140</u>	<u>45</u>
Net Assets, End of Year	<u>\$ 161</u>	<u>\$ 207</u>	<u>\$ 368</u>	<u>\$ 83</u>	<u>\$ 183</u>	<u>\$ 266</u>

See Accompanying Notes to Financial Statements

NASBA CENTER FOR THE PUBLIC TRUST

STATEMENTS OF FUNCTIONAL EXPENSES

For Years Ended July 31,

In thousands

	Program Services				Supporting Services			Total
	Ethics Advancement	StudentCPT	Conferences	Total	Administrative	Development	Total	
2018								
Compensation	\$ 91	\$ 145	\$ 15	\$ 251	\$ 18	\$ 55	\$ 73	\$ 324
Benefits, taxes and other costs	27	45	4	76	8	16	24	100
Conference and meetings	2	67	-	69	-	20	20	89
Travel	10	22	1	33	-	7	7	40
Technology	8	27	-	35	2	3	5	40
Professional fees	34	6	-	40	12	-	12	52
Credit card and other costs	-	5	-	5	2	2	4	9
Occupancy	7	12	2	21	1	4	5	26
Depreciation	-	-	-	-	15	-	15	15
Office	7	1	-	8	3	2	5	13
Marketing	8	13	-	21	-	-	-	21
Other	-	-	1	1	1	13	14	15
Totals	\$ 194	\$ 343	\$ 23	\$ 560	\$ 62	\$ 122	\$ 184	\$ 744
2017								
Compensation	\$ 90	\$ 173	\$ 12	\$ 275	\$ 12	\$ 71	\$ 83	\$ 358
Benefits, taxes and other costs	29	50	4	83	4	18	22	105
Conference and meetings	1	90	-	91	-	6	6	97
Travel	8	27	1	36	-	13	13	49
Technology	5	26	-	31	2	2	4	35
Professional fees	13	6	-	19	13	-	13	32
Credit card and other costs	-	3	-	3	2	1	3	6
Occupancy	7	11	1	19	1	5	6	25
Depreciation	-	-	-	-	15	-	15	15
Office	7	2	-	9	2	2	4	13
Marketing	31	34	-	65	-	11	11	76
Other	-	-	1	1	1	11	12	13
Totals	\$ 191	\$ 422	\$ 19	\$ 632	\$ 52	\$ 140	\$ 192	\$ 824

See Accompanying Notes to Financial Statements

NASBA CENTER FOR THE PUBLIC TRUST

STATEMENTS OF FINANCIAL POSITION

July 31,
In thousands

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 241	\$ 178
Accounts receivable	34	5
Contributions receivable	49	31
Prepaid expenses	<u>22</u>	<u>27</u>
Total current assets	<u>346</u>	<u>241</u>
Long-term Assets		
Endowment fund	<u>114</u>	<u>106</u>
Total long-term assets	<u>114</u>	<u>106</u>
Total assets	<u><u>\$ 460</u></u>	<u><u>\$ 347</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 70	\$ 63
Due to NASBA	<u>22</u>	<u>18</u>
Total liabilities	<u>92</u>	<u>81</u>
Net Assets		
Without donor restrictions	161	83
With donor restrictions	<u>207</u>	<u>183</u>
Total net assets	<u>368</u>	<u>266</u>
Total liabilities and net assets	<u><u>\$ 460</u></u>	<u><u>\$ 347</u></u>

See Accompanying Notes to Financial Statements

NASBA CENTER FOR THE PUBLIC TRUST

STATEMENTS OF CASH FLOWS

For Years Ended July 31,

In thousands

	2018	2017
Operating Activities		
Cash received from NASBA	\$ 150	\$ 330
Cash received from donors	180	203
Cash received on contributions receivable	27	35
Cash received from program revenue	174	146
Interest and dividends received	3	3
Cash paid for supplies and employees	(468)	(566)
Net cash provided by operating activities	66	151
Investing Activities		
Funds restricted for endowment	-	(2)
Endowment reinvested dividends	(3)	(2)
Net cash used by investing activities	(3)	(4)
Financing Activities		
Cash contributions restricted for endowment	-	2
Net cash provided by financing activities	-	2
Net Increase in Cash and Cash Equivalents	63	149
Cash and Cash Equivalents, Beginning of Year	178	29
Cash and Cash Equivalents, End of Year	\$ 241	\$ 178
Reconciliation of increase in net assets to net cash provided in operating activities:		
Increase in net assets	\$ 102	\$ 221
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Gains on endowment investment securities	(5)	(8)
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables	(47)	9
Prepaid expenses	5	(17)
Increase (decrease) in:		
Due to NASBA	4	(66)
Accounts payable and accrued liabilities	7	12
Net cash provided by operating activities	\$ 66	\$ 151

See Accompanying Notes to Financial Statements

**NASBA Center for the Public Trust
Notes to Financial Statements**

Note 1. Organization and Nature of Operations

The NASBA Center for the Public Trust ("CPT") is a nonprofit, public benefit corporation whose mission is to champion the public trust by advancing ethical leadership in business, institutions and organizations.

Ethics advancement programs recognize individuals and organizations that practice high standards of social responsibility and ethical leadership and provide continuing professional education content for the same. The Student Center for the Public Trust ("StudentCPT") focuses on educating and engaging future business leaders on ethics, accountability and integrity through student membership groups at colleges and universities. CPT provides ethics leadership training and certification programs for students and professionals. In addition, CPT sponsors lectures, conferences and forums dedicated to addressing the duty of professionals to serve the public good, along with a focus on the issues that arise in the practical ethics of public life.

CPT is a membership organization of which the National Association of State Boards of Accountancy ("NASBA") is its sole member. In fiscal 2018 and 2017, NASBA provided support to CPT through monetary contributions of \$150,000 and \$330,000, respectively. Included in the financial statements are the expenses for the cost of NASBA personnel who devote the majority of their time to CPT-related activities and for property and equipment, including office space, used by these personnel. These expenses are charged to, and reimbursed by, CPT at the cost incurred by NASBA. Also included in the financial statements are offsetting amounts of revenue and expense for the value of supporting services contributed by NASBA personnel in the areas of executive leadership, finance, information services, human resources, and marketing. The contribution of these services was valued at NASBA's cost of \$245,000 and \$262,000 in fiscal 2018 and 2017, respectively, and is reflected in the financial statements.

Note 2. Significant Accounting Policies

Basis of presentation

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

Use of estimates

The preparation of financial statements 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.

Cash and cash equivalents

Cash equivalents include investments in money market funds in financial institutions which management believes are financially strong and are used to meet the operating needs of the organization. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. From time to time, cash and cash equivalents may exceed FDIC limits.

Contributions and accounts receivable

Contributions receivable are unconditional written promises to give which are recorded in the year the promise is made. Unconditional written promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Contributions receivable are discussed more fully in Note 3.

The carrying amount of all receivables is evaluated and reduced by a valuation allowance, if necessary. The need for an allowance is determined based on management's knowledge of its contributors, customers, historical loss experience and existing economic conditions. Management has determined that no allowance is required at July 31, 2018 or 2017.

Prepaid expenses

Prepaid expenses consist primarily of software subscription services.

**NASBA Center for the Public Trust
Notes to Financial Statements**

Note 2. Significant Accounting Policies (Continued)

Net assets

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

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

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Net assets with donor restrictions are discussed more fully in Note 6.

Revenue and support recognition

Unconditional contributions are recognized as revenue when the contribution or pledge is received. Program revenue from Ethical Leadership Training and Certification is earned at the point users access the certification program software, regardless of whether they complete the requirements to obtain certification.

Income taxes

CPT is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and applicable state tax statutes. CPT is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Internal Revenue Code.

CPT has adopted the recognition requirements for uncertain income tax positions and believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on CPT's financial position, results of operations or cash flows. Accordingly, CPT has accrued no interest or penalties related to uncertain tax positions at July 31, 2018 or 2017. It is CPT's policy to recognize interest and penalties related to income tax matters in other expense. In general, CPT is no longer subject to examinations by tax authorities for U.S. federal and state income tax returns before fiscal 2015.

Contributed services

CPT is a recipient of a Google Ads Grant which allows free access to the nonprofit edition of Google's advertising program and enables CPT to reach out directly to their target audience. Based on Google's estimates, the value of these advertising credits, which began in June 2016, amounted to \$15,000 and \$60,000 in fiscal 2018 and 2017, respectively, and are recognized as offsetting revenue and expense in the Statements of Activities.

Many individuals contribute their time to CPT's activities. The value of these individuals' services is not recorded in the financial statements because such services would typically not be purchased by CPT if they had not been provided by contribution. Meeting and travel expenses for these individuals are reimbursed by CPT.

Expense allocation method

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Expenses are allocated to the programs or functions on a reasonable basis that is consistently applied. Such allocations include occupancy, which is allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, office expenses, information technology, and other expenses, which are allocated based on the estimated time devoted to the program or function.

**NASBA Center for the Public Trust
Notes to Financial Statements**

Note 2. Significant Accounting Policies (Continued)

New accounting pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which made changes to the current reporting model for Not-for-Profit entities. The amendments in ASU 2016-14 simplify the current net asset classification requirements and improve the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The standard is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. CPT adopted ASU 2016-14 effective August 1, 2017. Retrospective application was made in the financial statements. Amounts previously shown as unrestricted net assets are now net assets without donor restrictions and amounts previously shown as temporarily and permanently restricted as net assets are combined into net assets with donor restrictions. Aside from statements of functional expenses and additional disclosures, there were no other impacts on the financial statements for fiscal 2018 and 2017.

Reclassifications

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

Note 3. Contributions Receivable

Contributions receivable, consisting of unconditional written promises to give at July 31, 2018 and 2017 total \$49,000 and \$31,000, respectively. All amounts are current and due in less than one year.

At July 31, 2018 and 2017, there are no contributions receivable which are permanently restricted for the endowment. In fiscal 2017, a pledge to the endowment of \$2,000 was released from net assets with donor restrictions at the donor's request.

Note 4. Endowment Funds

The CPT Board of Directors established an endowment fund with donor-restricted funds and a related investment and spending policy with the objective of providing an income stream to fund endowment-related programs while seeking to maintain purchasing power of the endowment assets. Income generated from the endowment fund is restricted for the benefit of the Student Center for the Public Trust and the Ethics Network. The principal of the endowment fund will remain permanently invested and classified as net assets with donor restrictions.

Investment securities owned by CPT are required under the CPT Board-approved investment policy to meet certain criteria as to allowable asset classes and the composition of investments within those classes. Risk characteristics of the portfolio are managed through three primary asset classes of equity, fixed income and diversified investments. The diversified asset class contains investments that are not correlated with the equity and fixed income asset classes and are intended to provide anticipated risk-versus-return characteristics that are beneficial to the portfolio. CPT's investments are carried at fair value. Securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with investment securities, it is reasonably possible that changes in their value will occur in the near term and that such changes could be material to the financial statements. Additional information on fair value and the asset classes is disclosed in Note 5.

Under the endowment spending policy, the CPT Board of Directors may designate a portion of the cumulative investment return, including net appreciation, for support of the current operations of specified programs; the remainder is retained to support operations of future years and to offset potential market declines. Under the endowment spending policy, up to 5 percent of the rolling three-year average value of the portfolio as of December 31 for the three years prior to the current budget year may be appropriated for the current year. Investment income designated for current operations and used for the specified programs is classified as an increase in net assets without donor restrictions. Investment income in excess of amounts designated for current operations is classified as an increase in net assets with donor restrictions. Investment income is classified as net assets with donor restrictions for fiscal 2018 and 2017.

NASBA Center for the Public Trust
Notes to Financial Statements

Note 4. Endowment Funds (Continued)

The following schedule summarizes the investment return in the statements of activities for the years ended July 31:

(In thousands)	2018	2017
Dividends and interest	\$ 3	\$ 3
Net realized and unrealized gains	4	8
Total return on investments	7	11
Investment return retained in the Endowment Fund	7	11
Investment return designated for current operations	\$ -	\$ -

In accordance with the Uniform Prudent Management of Institutional Funds Act, the contributions received for the endowment fund are included in net assets with donor restrictions. Changes in net assets related to the endowment for fiscal year ended July 31, 2018 are as follows:

(In thousands)	
Endowment net assets, beginning of year	\$ 107
Investment income (net of expenses)	7
Endowment Net Assets, End of Year	\$ 114

Changes in net assets related to the endowment for fiscal year ended July 31, 2017 are as follows:

(In thousands)	
Endowment net assets, beginning of year	\$ 98
Investment income (net of expenses)	11
Released from restrictions	(2)
Endowment Net Assets, End of Year	\$ 107

Note 5. Fair Value Accounting

Authoritative guidance clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures for fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to 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, 2018 and 2017, the valuation method used to determine fair value for Level 1 investment securities is the last reported sales price on the last business day of the fiscal year reported by the active markets in which the individual securities are traded.

The fair value of investment securities, of which the entire amount is invested in Level 1 mutual funds, exchange-traded funds, money market funds and cash at July 31 is as follows:

(In thousands)	2018	2017
Mutual Funds		
Equity securities	\$ 46	\$ 53
Fixed income securities	21	19
Diversified investments	17	15
Exchange-traded Funds		
Equity securities	30	19
Total Endowment Investments	\$ 114	\$ 106

NASBA Center for the Public Trust
Notes to Financial Statements

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions at July 31 are as follows:

(In thousands)	2018	2017
Time-restricted		
Endowment investment income	\$ 21	\$ 14
Purpose-restricted		
Daniels Fund project	10	10
Student Center for the Public Trust	83	66
Endowment fund	93	93
Total Net Assets with Donor Restrictions	\$ 207	\$ 183

At July 31, 2018 and 2017 net assets with donor restrictions were secured by cash, short-term receivables and investments.

Note 7. Liquidity and Availability

The following schedule reflects CPT's financial assets as of the date of July 31, 2018 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the Statement of Financial Position. Amounts not available include endowment fund earnings retained in the endowment fund that could be drawn upon if the governing board approves that action.

(In thousands)		
Cash and cash equivalents	\$	241
Accounts receivable		34
Contributions receivable		49
Endowment fund investments		114
Total financial assets, at year end		438
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Endowment		(93)
Restricted by donor with time or purpose restrictions		(114)
Financial assets available to meet cash needs for general expenditures within one year	\$	231

CPT is substantially supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, CPT must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of CPT's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. CPT's sole member NASBA supports CPT activities as part of its strategic mission and commitment to high ethical standards in matters of accounting and business leadership. In the past, NASBA's board has approved amounts in excess of its annual funding to assist CPT in meeting its short-term cash needs. In the event of an unanticipated liquidity need, it is likely that NASBA would provide financial support to assist CPT in meeting those needs.

Note 8. Subsequent Events

Management has evaluated all material events and transactions that occurred from the date of the financial statements through September 20, 2018, which is the date that the financial statements were available to be issued. There were no material subsequent events that required adjustments to or disclosure in the financial statements.