

**NASBA CENTER FOR THE
PUBLIC TRUST, INC.**

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

JULY 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of NASBA and the
NASBA Center for the Public Trust, Inc.

We have audited the accompanying financial statements of the NASBA Center for the Public Trust, Inc. (a nonprofit organization), which comprise the statements of activities for the years ended July 31, 2017 and 2016, and the related statements of financial position as of July 31, 2017 and 2016, 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 of 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 risk of material misstatements 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, Inc. for the years ended July 31, 2017 and 2016, and the financial position as of July 31, 2017 and 2016 and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee
October 5, 2017

NASBA CENTER FOR THE PUBLIC TRUST, INC.

STATEMENTS OF ACTIVITIES

For Years Ended July 31,
In thousands

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Contributions	\$ 588	\$ 40	\$ -	\$ 628	\$ 384	\$ 36	\$ -	\$ 420
Services received from affiliate personnel	262	-	-	262	82	-	-	82
Programs	144	-	-	144	70	-	-	70
Investment income (loss)	-	11	-	11	-	(2)	-	(2)
Net assets released from restrictions	8	(6)	(2)	-	88	(88)	-	-
Total revenue and support	1,002	45	(2)	1,045	624	(54)	-	570
Program Expenses								
Ethics Advancement	178	-	-	178	210	-	-	210
Student Center for the Public Trust	435	-	-	435	367	-	-	367
Conferences	19	-	-	19	19	-	-	19
Total program expenses	632	-	-	632	596	-	-	596
Supporting Expenses								
Administrative	52	-	-	52	39	-	-	39
Development	140	-	-	140	93	-	-	93
Total supporting expenses	192	-	-	192	132	-	-	132
Total expenses	824	-	-	824	728	-	-	728
Increase (Decrease) in Net Assets	178	45	(2)	221	(104)	(54)	-	(158)
Net Assets (Deficit), Beginning of Year	(95)	45	95	45	9	99	95	203
Net Assets (Deficit), End of Year	\$ 83	\$ 90	\$ 93	\$ 266	\$ (95)	\$ 45	\$ 95	\$ 45

See Accompanying Notes to Financial Statements

NASBA CENTER FOR THE PUBLIC TRUST, INC.

STATEMENTS OF FINANCIAL POSITION

July 31,
In thousands

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 178	\$ 29
Accounts receivable	5	7
Contributions receivable	31	35
Prepaid expenses	27	10
Total current assets	<u>241</u>	<u>81</u>
Long-term Assets		
Contributions receivable	-	5
Endowment fund	106	94
Total long-term assets	<u>106</u>	<u>99</u>
Total assets	<u><u>\$ 347</u></u>	<u><u>\$ 180</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 63	\$ 51
Due to NASBA	18	84
Total liabilities	<u>81</u>	<u>135</u>
Net Assets (Deficit)		
Unrestricted	83	(95)
Temporarily restricted	90	45
Permanently restricted	93	95
Total net assets	<u>266</u>	<u>45</u>
Total liabilities and net assets	<u><u>\$ 347</u></u>	<u><u>\$ 180</u></u>

See Accompanying Notes to Financial Statements

NASBA CENTER FOR THE PUBLIC TRUST, INC.

STATEMENTS OF CASH FLOWS

For Years Ended July 31,
In thousands

	2017	2016
Operating Activities		
Cash received from NASBA	\$ 330	\$ 150
Cash received from donors	203	237
Cash received on contributions receivable	35	47
Cash received from program revenue	146	64
Interest and dividends received	3	3
Cash paid for supplies and employees	(566)	(597)
Net cash provided (used) by operating activities	<u>151</u>	<u>(96)</u>
Investing Activities		
Funds restricted for endowment	(2)	(1)
Endowment reinvested dividends	(2)	(3)
Net cash used by investing activities	<u>(4)</u>	<u>(4)</u>
Financing Activities		
Cash contributions restricted for endowment	2	1
Net cash provided by financing activities	<u>2</u>	<u>1</u>
Net Increase (Decrease) in Cash and Cash Equivalents	149	(99)
Cash and Cash Equivalents, Beginning of Year	<u>29</u>	<u>128</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 178</u></u>	<u><u>\$ 29</u></u>
 Reconciliation of increase (decrease) in net assets to net cash provided (used) in operating activities:		
Increase (decrease) in net assets	\$ 221	\$ (158)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
(Gains) losses on endowment investment securities	(8)	4
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables	9	11
Prepaid expenses	(17)	(4)
Increase (decrease) in:		
Due to NASBA	(66)	56
Accounts payable and accrued liabilities	12	(5)
Net cash provided (used) by operating activities	<u><u>\$ 151</u></u>	<u><u>\$ (96)</u></u>

See Accompanying Notes to Financial Statements

NASBA Center for the Public Trust, Inc.
Notes to Financial Statements

Note 1. Organization and Nature of Operations

The NASBA Center for the Public Trust, Inc. (the "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 focuses on educating and engaging future business leaders on ethics, accountability and integrity through student membership groups at colleges and universities. The CPT provides ethics leadership certification programs for students and professionals. In addition, the 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, Inc. ("NASBA") is its sole member. In fiscal 2017 and 2016, NASBA provided support to the CPT through monetary contributions of \$330,000 and \$150,000, 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, the 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 \$262,000 and \$82,000 in fiscal 2017 and 2016, respectively, and is reflected in the financial statements as discussed in Note 2 - Services Received from NASBA Personnel.

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, historical loss experience and existing economic conditions. Management has determined that no allowance is required at July 31, 2017 or 2016.

Prepaid expenses

Prepaid expenses consist primarily of software subscription services.

NASBA Center for the Public Trust, Inc.
Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Net assets

Unrestricted net assets are available for use in general operations. Temporarily restricted net assets have donor-imposed restrictions which permit the use of the donated assets in accordance with the donor restriction. Temporarily restricted contributions and investment income used for the purpose specified by the donor in the same year as received are classified as increases in unrestricted net assets. Permanently restricted net assets have donor-imposed restrictions in which the principal will remain permanently invested. Temporarily and permanently restricted net assets 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 Certification is earned at the point users access the certification program software, regardless of whether they complete the requirements to obtain certification.

Income taxes

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

The 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 the 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, 2017 or 2016. It is the CPT's policy to recognize interest and penalties related to income tax matters in other expense. In general, the CPT is no longer subject to examinations by tax authorities for U.S. federal and state income tax returns before fiscal 2014.

Contributed Services

CPT is a recipient of a Google Ad 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 \$60,000 and \$2,000 in fiscal 2017 and 2016, respectively, and are recognized as offsetting revenue and expense in the Statements of Activities.

Many individuals contribute their time to the 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 the CPT if they had not been provided by contribution. Meeting and travel expenses for these individuals are reimbursed by the CPT.

Services Received from NASBA Personnel

Contributions of services by NASBA personnel, received without charge, are recorded in the statements of activities at NASBA's cost as discussed in Note 1.

Reclassifications

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

NASBA Center for the Public Trust, Inc.
Notes to Financial Statements

Note 3. Contributions Receivable

Contributions receivable consist of the following unconditional written promises to give at July 31, 2017 and 2016:

(In thousands)	2017	2016
Amounts due in:		
Less than one year	\$ 31	\$ 35
One to five years	-	5
Present value of total contributions receivable	31	40
Less current contributions receivable	31	35
Non-current Contributions Receivable	\$ -	\$ 5

At July 31, 2017, there are no contributions receivable which are permanently restricted for the endowment. At July 31, 2016, contributions receivable includes \$5,000 which is permanently restricted for the endowment. In fiscal 2017, a pledge to the endowment of \$2,000 was released from permanently restricted net assets 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 permanently restricted.

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 unrestricted net assets. Investment income in excess of amounts designated for current operations is classified as an increase in temporarily restricted net assets. Investment income is classified as temporarily restricted for fiscal 2017 and 2016.

NASBA Center for the Public Trust, Inc.
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)	2017	2016
Dividends and interest	\$ 3	\$ 3
Net realized and unrealized losses	8	(5)
Total return on investments	11	(2)
Investment return retained in the Endowment Fund	11	(2)
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 permanently restricted net assets. Changes in net assets related to the endowment for fiscal year ended July 31, 2017 are as follows:

(In thousands)	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3	\$ 95	\$ 98
Investment income (net of expenses)	11	-	11
Released from restrictions	-	(2)	(2)
Endowment Net Assets, End of Year	\$ 14	\$ 93	\$ 107

Changes in net assets related to the endowment for fiscal year ended July 31, 2016 are as follows:

(In thousands)	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 5	\$ 95	\$ 100
Investment loss (net of expenses)	(2)	-	(2)
Endowment Net Assets, End of Year	\$ 3	\$ 95	\$ 98

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, 2017 and 2016, 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.

NASBA Center for the Public Trust, Inc.
Notes to Financial Statements

Note 5. Fair Value Accounting (Continued)

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)	2017	2016
Mutual Funds		
Equity securities	\$ 53	\$ 45
Fixed income securities	19	18
Diversified investments	15	13
Exchange-traded Funds		
Equity securities	19	17
Money market funds and cash	-	1
Total Endowment Investments	\$ 106	\$ 94

Note 6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at July 31 have donor-imposed restrictions as follows:

(In thousands)	2017	2016
Time-restricted		
Multi-year pledges	\$ -	\$ 1
Endowment investment income	14	3
Purpose-restricted		
Daniels Fund project	10	-
Student Center for the Public Trust	66	41
Total Temporarily Restricted Net Assets	\$ 90	\$ 45

Permanently restricted net assets at July 31 include:

(In thousands)	2017	2016
Endowment contributions receivable	\$ -	\$ 5
Endowment fund	93	90
Total Permanently Restricted Net Assets	\$ 93	\$ 95

At July 31, 2017 and 2016 restricted net assets were secured by cash, short-term receivables and investments.

Note 7. Subsequent Events

Management has evaluated all material events and transactions that occurred from the date of the financial statements through October 5, 2017, 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.