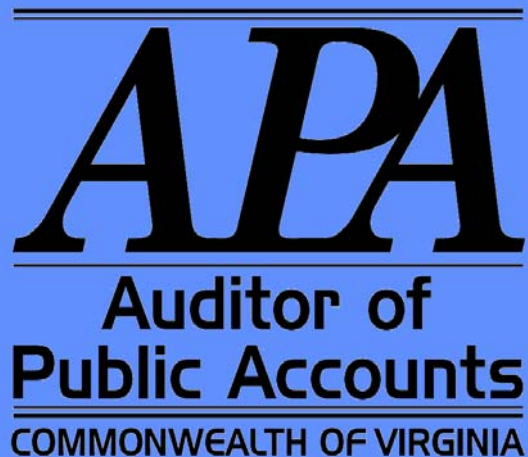


VIRGINIA BOARD OF ACCOUNTANCY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**



AUDIT SUMMARY

Our audit of the Virginia Board of Accountancy for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance with material laws and regulations or other matters that are required to be reported; and
- adequate implementation of corrective action on prior audit findings.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

As management of the Board, we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2007.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$1,241,502 (net assets), a decrease of \$149,747 in comparison with the prior year. Of this amount, \$1,111,759 represents unrestricted net assets, which may be used to meet the Board's ongoing obligations to citizens and creditors.

At the close of the current fiscal year, the Board's governmental funds reported combined ending fund balances of \$1,124,977 a decrease of \$130,484 in comparison with the prior year. The entire balance is unreserved and is available for spending at the Board's discretion.

At the close of the current fiscal year, unreserved fund balance for the Board's Operating Fund was \$244,597, or 26 percent of total operating expenditures. The Board also has a Special Enforcement Fund to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting. At the close of the current fiscal year, the Special Enforcement Fund reported an ending fund balance of \$880,380.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements, which are comprised of three components: (1) the entity-wide financial statements, (2) the fund financial statements, and (3) the Notes to Financial Statements.

Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Board's funds are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has two governmental funds, both of which are special revenue funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for each fund.

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. A budgetary comparison statement has been provided for the Operating Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 through 15 of this report.

Entity-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets exceeded liabilities by \$1,241,502 at the close of the most recent fiscal year.

By far the largest portion of the Board's net assets (90 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations to citizens and creditors. The remaining ten percent of the Board's net assets reflects its investment in capital assets. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

	<u>Net Assets</u>	
	<u>2007</u>	<u>2006</u>
Current assets	\$1,228,679	\$ 1,279,515
Capital assets	<u>129,743</u>	<u>140,807</u>
Total assets	<u>1,358,422</u>	<u>1,420,322</u>
Current liabilities	103,702	24,054
Long-term liabilities	<u>13,218</u>	<u>5,019</u>
Total liabilities	<u>116,920</u>	<u>29,073</u>
Net assets:		
Invested in capital asset:	129,743	140,807
Unrestricted	<u>1,111,759</u>	<u>1,250,442</u>
Total net assets	<u>\$1,241,502</u>	<u>\$1,391,249</u>

At the end of the current year, the Board is able to report a positive balance in both categories of net assets. The same situation held true for the prior fiscal year.

The Board's net assets decreased by \$149,747 during the current fiscal year. This decrease represents the degree to which payroll and operating expenses exceeded license fees and interest income. Key elements of this change are as follows:

	<u>Changes in Net Assets</u>	
	<u>2007</u>	<u>2006</u>
Program revenues:		
Charges for services	\$ 775,650	\$ 709,392
General revenues:		
Interest income	61,130	44,935
Monetary penalties	64,500	6,610
Other	<u>-</u>	<u>255</u>
Total revenues	<u>901,280</u>	<u>761,192</u>
Licensing and enforcement expenses	<u>976,382</u>	<u>627,528</u>
Increase (decrease) in net assets before transfers	(75,102)	133,664
Transfers/(net)	<u>(74,645)</u>	<u>(23,631)</u>
Increase (decrease) in net assets:	(149,747)	110,033
Net assets – July 1	<u>1,391,249</u>	<u>1,281,216</u>
Net assets – June 30	<u>\$1,241,502</u>	<u>\$1,391,249</u>

Financial Analysis of the Entity's Special Revenue Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unreserved fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

Program Revenues and Expenditures

At the end of the current fiscal year, the Board's special revenue funds reported combined ending fund balances of \$1,124,977. This entire amount is unreserved, meaning it is available for spending at the Board's discretion.

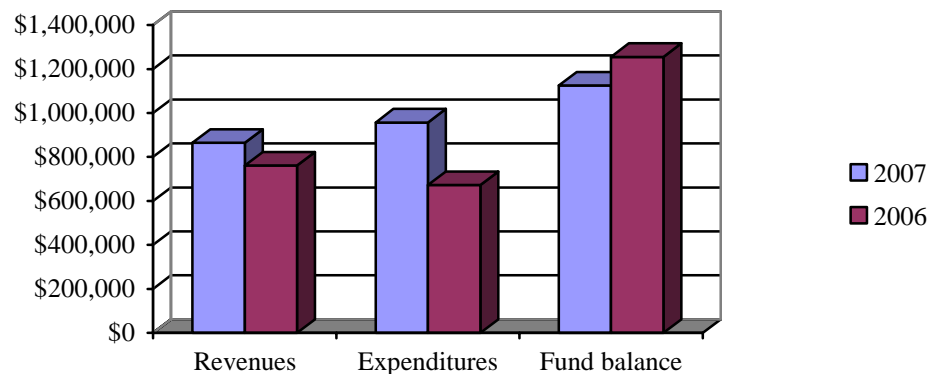
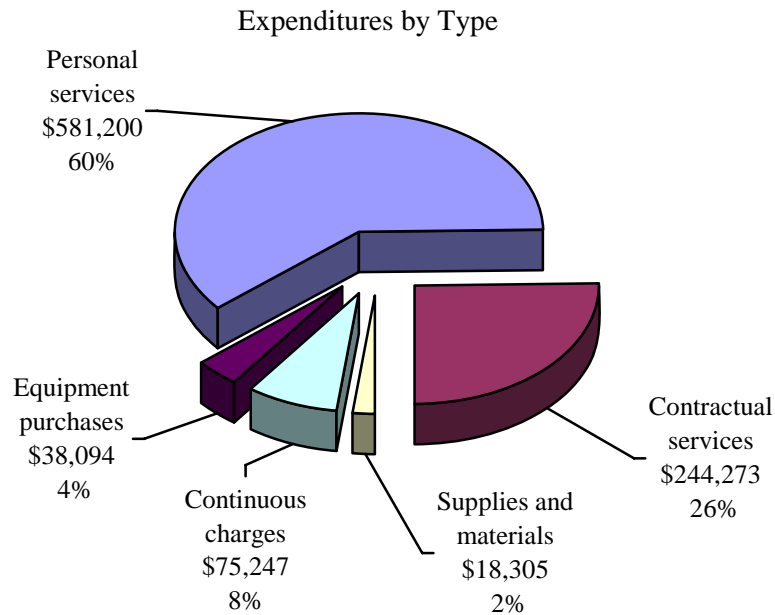
The Operating Fund is the chief operating fund of the Board. At the end of the current fiscal year, the unreserved fund balance of the Operating Fund was \$244,597. As a measure of the Operating Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The fund balance represents 26 percent of total expenditures.

The fund balance of the Board's Operating Fund decreased by \$174,650 during the current fiscal year. Key factors affecting the change in fund balance are as follows:

- The number of new applications and renewals increased slightly in the current year. However, licensing revenues decreased by \$7,422 because the Board's efforts to reduce the number of expired licenses and registrations has resulted in a switch from reinstatement fees to the lower on-time renewal fees.
- In August 2006, the Board began assisting Virginia's CPA examination candidates directly from the Board office in Richmond. Exam administration fees previously paid to the outside vendor are now paid directly to the Board, causing licensing revenues to increase by \$73,700. The Board has implemented a number of efficiencies in the exam administration process and the new administration fee is substantially less than the fee assessed by the old exam vendor. As a result, candidates now pay substantially less for both initial applications and exam retakes.
- Interest rates continue to rise, causing interest income to increase by \$16,195.
- The number of enforcement cases continues to rise, causing monetary penalties to increase by \$21,390.
- The Board added three new full-time positions to handle the increased workflow associated with in-house exam administration. These new positions, coupled with cost of living increases and other salary increases, caused personal service expenses to increase by \$170,887.

- Other licensing and enforcement expenses increased by \$113,775, as costs associated with maintaining and updating the Board's automated systems continues to rise.
- Mandatory transfers to the State General Fund decreased by \$6,776, while transfers of monetary penalties to the State Literary Fund increased by \$21,290.

The Special Enforcement Fund has a total fund balance of \$880,380, all of which is unreserved. Interest income remains in the fund, helping to increase the fund balance.



Operating Fund Budgetary Highlights

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Differences

between the original budget and the final amended budget totaled \$232,998. The budgetary increase can be summarized as follows:

- \$32,998 increase in personal services to fund a new compliance position needed to handle the increased number of disciplinary actions and to fund cost-of-living and other salary adjustments.
- \$135,000 increase in contractual services to pay the increased costs of information technology services.
- \$40,000 increase in contractual services to fund upgrades to the Board's server and other information technology equipment.
- \$25,000 increase in continuous changes to pay the increased cost of accounting services provided by the Department of Motor Vehicles.

Capital Assets

The Board's investment in capital assets at June 30, 2007, amounts to \$129,743 (net of accumulated depreciation). This amount consists of software costs for the Board's computerized licensing system. Additional information on the Board's capital assets can be found in Note 5 on page 20 of this report.

Economic Factors and Next Year's Budget and Rates

The Board's major source of revenue is licensing and exam fees. The Board's regulant population has stabilized over the last few years and licensing fees are expected to remain constant, with only a slight increase in revenues from renewals. The Code of Virginia was amended effective July 1, 2006, to require persons seeking licensure to obtain at least 150 semester hours of education before applying to sit for the CPA exam. The number of new exam applications decreased in the fall of 2006 in response to this change as candidates worked to obtain the additional education hours. This downward trend is already reversing itself and examination fees are expected to increase again in the coming fiscal year.

CPA License Holders and Firm Registrations

	<u>At June 30, 2007</u>	<u>At June 30, 2006</u>
Individuals	21,113	19,778
Firms	<u>1,267</u>	<u>1,630</u>
Total	<u>22,380</u>	<u>21,408</u>

The Board plans to hire an additional full-time staff person to assist in handling its increasing enforcement caseload and personal service costs are expected to increase accordingly. Costs associated with maintaining and upgrading the Board's automated licensing system are also expected to increase; although, much of these costs will be offset by savings from the vacant programmer position. On August 2, 2007, the Board moved its offices to a new location, incurring one-time costs for moving and equipping the Board's new office space.

All of these factors were considered in preparing the Board's budget for the upcoming fiscal year.

FINANCIAL STATEMENTS

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF NET ASSETS
As of June 30, 2007
With Comparative Figures for 2006

	Governmental Activities	
	2007	2006
Assets:		
Cash held by the Treasurer of Virginia (Note 3)	\$ 1,192,179	\$ 1,277,015
Accounts receivable, net of allowance for doubtful accounts (Note 4)	36,500	2,500
Equipment, net of accumulated depreciation (Note 5)	129,743	140,807
Total assets	1,358,422	1,420,322
Liabilities:		
Accounts payable	41,378	13,655
Accrued salaries payable	25,824	7,899
Due to the State Literary Fund (Note 4)	36,500	2,500
Compensated absences payable (Note 6)	13,218	5,019
Total liabilities	116,920	29,073
Net assets:		
Invested in capital assets	129,743	140,807
Unrestricted	1,111,759	1,250,442
Total net assets	\$ 1,241,502	\$ 1,391,249

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Governmental Activities			
	2007		2006	
	Program Revenues	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services			
<u>Functions/programs:</u>				
Governmental activities				
Licensing and enforcement functions	\$ 976,382	\$ 775,650	\$ (200,732)	\$ 81,864
General revenues:				
Unrestricted interest income		61,130	44,935	
Monetary penalties		64,500	6,610	
Other revenue		-	255	
Transfers:				
Transfers to the State General Fund		(10,245)	(17,021)	
Transfers to the State Literary Fund		(64,400)	(6,610)	
Total general revenues and transfers		50,985	28,169	
Changes in net assets		(149,747)	110,033	
Net assets, July 1		1,391,249	1,281,216	
Net assets, June 30		\$ 1,241,502	\$ 1,391,249	

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2007
With Comparative Figures for 2006

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2007	Total 2006
Assets:				
Cash held by the Treasurer of Virginia (Note 3)	\$ 311,799	\$ 880,380	\$ 1,192,179	\$ 1,277,015
Accounts receivable (Note 4)	36,500	-	36,500	2,500
Total assets	348,299	880,380	1,228,679	1,279,515
Liabilities and fund balance:				
Liabilities:				
Accounts payable	\$ 41,378	\$ -	\$ 41,378	\$ 13,655
Accrued salaries payable	25,824	-	25,824	7,899
Due to the State Literary Fund	-	-	-	2,500
Deferred revenue	36,500	-	36,500	-
Total liabilities	103,702	-	103,702	24,054
Fund balance:				
Unreserved	244,597	880,380	1,124,977	1,255,461
Total liabilities and fund balance	\$ 348,299	\$ 880,380	\$ 1,228,679	\$ 1,279,515
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Total fund balance (per above)			1,124,977	1,255,461
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds.			129,743	140,807
Long-term liability for compensated absences is not due and payable in the current period and therefore is not reported in the funds.			(13,218)	(5,019)
Net assets of governmental activities (page 8)			\$ 1,241,502	\$ 1,391,249

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2007	Total 2006
Revenues:				
Licenses and permits	\$ 775,650	\$ -	\$ 775,650	\$ 709,392
Interest income	16,964	44,166	61,130	44,935
Monetary penalties	28,000	-	28,000	6,610
Other Revenues	-	-	-	255
Total revenues	820,614	44,166	864,780	761,192
Expenditures:				
Licensing and enforcement functions:				
Personal services	581,200	-	581,200	410,313
Contractual services	244,273	-	244,273	154,847
Supplies and materials	18,305	-	18,305	25,157
Continuous charges	75,247	-	75,247	73,342
Equipment purchases	38,094	-	38,094	8,798
Total expenditures	957,119	-	957,119	672,457
Excess/(deficiency) of revenues over expenditures	(136,505)	44,166	(92,339)	88,735
Other financing sources/(uses):				
Transfers to the State General Fund	(10,245)	-	(10,245)	(17,021)
Transfers to the State Literary Fund	(27,900)	-	(27,900)	(6,610)
Total other financing sources and uses	(38,145)	-	(38,145)	(23,631)
Net change in fund balance	(174,650)	44,166	(130,484)	65,104
Fund balance, July 1	419,247	836,214	1,255,461	1,190,357
Fund balance, June 30	\$ 244,597	\$ 880,380	\$ 1,124,977	\$ 1,255,461

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Special Revenue Funds			
	Special		Total	Total
	Operating Fund	Enforcement Fund		
			2007	2006
Amounts reported for governmental activities in the Statement of Activities are different because:				
Net change in fund balance (per above)			(130,484)	65,104
Governmental funds report equipment purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of equipment purchases less depreciation expense in the current period.			2,809	45,603
The capital asset write-off reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.			(13,873)	-
The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources, and therefore, is not reported as expenditures in the governmental funds.			(8,199)	(674)
Changes in net assets of governmental activities (page 9)			\$ (149,747)	\$ 110,033

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Operating Fund				
	2007			2006	
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive/ (Negative)	Actual Amounts
Revenues:					
Licenses and permits	\$ 709,500	\$ 709,500	\$ 775,650	\$ 66,150	\$709,392
Interest income	16,500	16,500	16,964	464	16,461
Monetary penalties	-	-	30,400	30,400	4,110
Miscellaneous revenue	-	-	-	-	255
Total revenues	726,000	726,000	823,014	97,014	730,218
Expenditures:					
Licensing and enforcement functions:					
Personal services	532,852	565,850	563,425	2,425	420,887
Contractual services	115,777	290,777	212,707	78,070	154,203
Supplies and materials	48,769	48,769	22,123	26,646	18,998
Transfer payments	1,028	1,028	-	1,028	-
Continuous charges	50,354	75,354	75,029	325	73,276
Equipment purchases	41,661	41,661	38,087	3,574	8,797
Total expenditures	790,441	1,023,439	911,371	112,068	676,161
Excess/(deficiency) of revenues over expenditures	(64,441)	(297,439)	(88,357)	209,082	54,057
Other financing sources/(uses):					
Transfers to the State General Fund	-	-	(10,245)	(10,245)	(17,021)
Transfers to the State Literary Fund	-	-	(30,400)	(30,400)	(4,110)
Total other financing sources and uses	-	-	(40,645)	(40,645)	(21,131)
Net change in fund balance	(64,441)	(297,439)	(129,002)	168,437	32,926
Fund balance, July 1	440,801	440,801	440,801	-	407,875
Fund balance, June 30	\$ 376,360	\$ 143,362	\$ 311,799	\$ 168,437	\$440,801

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Operating Fund				
	2007			2006	
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive/ (Negative)	Actual Amounts
Net change in fund balance (per above)			\$ (129,002)		\$ 32,926
Accrued revenues on modified accrual basis			(2,400)		-
Accrued expenditures on modified accrual basis			(45,748)		3,704
Accrued transfers on modified accrual basis			<u>2,500</u>		<u>-</u>
Change in fund balance on modified accrual basis (page 9)			<u>\$ (174,650)</u>		<u>\$ 36,630</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

THE VIRGINIA BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their health, safety, and welfare. The Board's major activities include reviewing applications to ensure applicants are competent to enter the profession; administering the Uniform CPA exam; determining continued qualifications for licensure; conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical, or professional standards.

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is an agency of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report.

B. Fund Accounting

The activities of the Board are accounted for in its special revenue funds. Special revenue funds account for transactions related to resources received and used for restricted or specific purposes.

The Board has two special revenue funds. The Operating Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those resources held in the Special Enforcement Fund. The Special Enforcement Fund accounts for the resources accumulated and payments made for the investigation and adjudication of matters involving possible violations of statutes or regulations pertaining to the profession of public accounting.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-Wide Financial Statements – The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the Board's financial activities. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to regulants. Interest income and other revenues not included among program revenues are reported instead as general revenues.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned

and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. License fees are recognized as revenue when received.

Governmental Fund Financial Statements – The financial statements also include separate fund financial statements. The Operating Fund and Special Enforcement Fund are reported in separate columns in the fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

2. BUDGETARY INFORMATION

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the state, and of estimated revenues and borrowing for a biennium, to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly, and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations. The Board received supplemental appropriations of \$232,998 during the current fiscal year to fund new positions, cost-of-living salary increases, increases in information technology costs and equipments, and the increased costs of accounting services. The Boards original and final adjusted budgets are included in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.

The Board has no current plans to spend monies in its Special Enforcement Fund. Consequently, the Board did not adopt an operating budget for the Special Enforcement Fund.

3. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Board are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash Held by the Treasurer of Virginia" and is not categorized as to credit risk.

4. RECEIVABLES AND DUE TO THE STATE LITERARY FUND

The Board levies and collects penalties from regulants found guilty of violating the Board's statutes or regulations. The proceeds from these penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. Consequently, receivables are offset by a corresponding amount Due to the State Literary Fund and are not available to meet the Board's current operating needs. At June 30, 2007, the amount Due to the State Literary Fund for collections on monetary penalties was \$36,500.

	<u>June 30, 2007</u>
Gross receivables	\$ 80,500
Less: allowance for doubtful accounts	<u>(44,000)</u>
Net Receivables	<u>\$ 36,500</u>

5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2007:

	<u>Balance at June 30, 2006</u>	<u>Acquired</u>	<u>Deleted</u>	<u>Balance at June 30, 2007</u>
Software	\$ 229,861	\$ 102,548	\$ (86,166)	\$ 246,243
Less accumulated depreciation	<u>(89,054)</u>	<u>(27,446)</u>	<u>-</u>	<u>(116,500)</u>
Capital assets, net	<u>\$ 140,807</u>	<u>\$ 75,102</u>	<u>\$ (86,166)</u>	<u>\$ 129,743</u>

The Board capitalizes all software and equipment with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. This includes capitalizing personal service cost associated with developing the software for internal use.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs are expensed on a straight-line basis over their estimated useful lives of five and seven years, respectively.

Licensing and enforcement expenses in the Statement of Activities include a write-down of \$13,873 caused by the Board's decision to stop further development of its licensing system. Given the Commonwealth's interest in expanding enterprise solutions, the Board is currently weighing the advantages of purchasing a new licensing system versus continued development of its existing system.

6. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Assets represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees but not taken at June 30, 2007. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth's leave payout policies. Information on the Commonwealth's leave payout policies is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

<u>Balance at</u> <u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2007</u>
<u>\$5,019</u>	<u>\$16,115</u>	<u>\$(7,916)</u>	<u>\$13,218</u>

7. TRANSFERS TO AND FROM THE SPECIAL ENFORCEMENT FUND

Effective July 1, 2004, in accordance with §54.1-4405 of the Code of Virginia, a special non-reverting fund known as the Board of Accountancy Special Enforcement Fund was created. The purpose of the fund is to provide a supplemental source of funds to the Board on a timely basis for use in the study, research, investigation and adjudication of matters involving possible violations of statutes or regulations pertaining to the profession of public accounting or for any other purpose that the Board determines is germane to its statutory purposes. On January 17, 2007, the Board transferred \$200,000 from the Operating Fund to the Special Enforcement Fund. On May 4, 2007, the Board returned the \$200,000 transfer to the Operating Fund to provide needed cash for ongoing expenditures.

8. LEASE COMMITMENTS

The Board is committed under an operating lease for office space at 3600 West Board Street. Rental expense for the fiscal year ended June 30, 2007, was \$34,035.

On May 25, 2007, the Board notified the lessor of its intention to terminate the lease agreement on August 31, 2007, in anticipation of moving its office to a new location. A summary of future obligations under lease agreements as of June 30, 2007, follows.

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	<u>\$5,859</u>

9. SUBSEQUENT EVENT

The Board has been actively working with the Department of General Services to relocate its office to a new facility that will bring the Board together with five other state agencies to facilitate the use of shared space and services. On August 2, 2007, the Board moved its offices to the Perimeter Center Building at 9960 Mayland Drive. On August 29, 2007, the Board entered into a ten-year operating lease for the new space. Rental expense over the ten-year lease period totals \$534,929.

10. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

The Board's employees are employees of the Commonwealth. The employees participate in a defined benefit plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available on a statewide level only in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the Board, has overall responsibility for contributions to these plans.

11. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Board participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, and automobile plans. The Board pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

March 18, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Board Members
Virginia Board of Accountancy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Virginia Board of Accountancy (Board) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the basic financial statements of the Board are intended to present the financial position and the changes in financial position of only that portion of the governmental-type activities and the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2007, and the changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages one through six are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Status of Prior Findings

The Board has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Virginia Board of Accountancy and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management on March 24, 2008.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA BOARD OF ACCOUNTANCY

As of June 30, 2007

The Board is comprised of five certified public accountants, one educator in the field of accountancy, and one citizen member. The Governor appoints each member to a term of four years.

Stephen D. Holton, CPA
Chairman

Lawrence D. Samuel, CPA
Vice Chairman

Regina P. Brayboy, MPA	Dian T. Calderone, CPA
O. Whitfield Broome, CPA	Tyrone E. Dickerson, CPA

William E. Hunt