

# THE VIRGINIA BOARD OF ACCOUNTANCY

## FINANCIAL STATEMENTS

For the Year Ended  
June 30, 2013

- T A B L E   O F   C O N T E N T S -

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

As management of the Virginia Board of Accountancy (Board), the Board offers readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2013.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$841,477 (net position), an increase of \$387,635 in comparison with the prior year. Of this amount, \$720,944 represents unrestricted net position, which may be used to meet the Board's ongoing obligations.

At the close of the current fiscal year, the Board's governmental funds reported combined ending fund balances of \$750,955, an increase of \$410,438 in comparison with the prior year. The committed portion of the fund balance is \$748,605 which is available for spending at the Board's discretion.

At the close of the current fiscal year, the total fund balance for the Board's Operating Fund was \$425,259, or approximately 38 percent of total operating expenditures. The Board also has a Trust Account 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, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its operating fund. At the close of the current fiscal year, the Trust Account reported an ending fund balance of \$325,696.

Recognizing that additional revenues would be necessary to cover operating expenses and to maintain sufficient funds in its Trust Account, the Board initiated a regulatory change to increase fees in January 2008. The final phase of this fee package was approved in September 2012 and became effective on January 1, 2013. The Board anticipates that this fee increase will sustain its operational and Trust Account needs for at least the next six years. As a result of the increase in fees that was effective January 1, 2013, for the first time in over six years, the Board's licensing and examination fees revenue exceeded its operating expenses and mandatory transfers.

FY2007 was the last time the position level of the Board staff increased. Since that time, the Board has seen a 324% increase in the number of new, tracked enforcement cases opened (from 38 to 161) and a 29% increase in the number of licensed CPA's in Virginia (from 19,891 to 25,627). As a result of this significant growth and small staff size, the Board needed additional resources to support its ongoing operating needs. The Board requested and was approved, effective in the next fiscal year, two (2) new positions and the conversion of two (2) part-time to full-time positions to support increased/on-going operating needs. The Board is also undergoing a major office renovation in FY2014 to expand and renovate office space to accommodate the new positions.

Continued investments in technology are necessary to achieve the operational efficiencies necessary for the Board to reach its strategic goals. The Board is supported by a generic off-the-shelf licensing software system. The current system does not meet the needs of staff, applicants, licensees or the public. The system is in need for updates and modifications. The Board is planning to procure a web-based, customizable off-the-shelf database system software that can be tailored to meet our specific business processes and work flow needs. This IT investment will provide operational efficiency by reducing ongoing operations and maintenance cost.

## 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 Position presents information on all of the Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 (e.g., 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 government agencies, 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 agency'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 Funds Balance Sheet and the Governmental Funds 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 (Operating Fund and Trust Account), both of which are special revenue funds. Information is presented in separate columns in the Governmental Funds Balance Sheet and in the Governmental Funds 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 10 through 14 of this report.

#### Entity-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets exceeded liabilities by \$841,477 at the close of the most recent fiscal year.

By far the largest portion of the Board's net position (86 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations. The remaining 14 percent of the Board's net position reflects its net investment in capital assets. The Board uses these capital assets to provide services to exam and license applicants, regulants and the public; consequently, these assets are not available for future spending.

#### Net Position

|                                  | 2013       | 2012       |
|----------------------------------|------------|------------|
| Current assets                   | \$ 921,911 | \$ 420,862 |
| Capital assets                   | 120,533    | 142,111    |
| Total assets                     | 1,042,444  | 562,973    |
| Current liabilities              | 165,956    | 80,345     |
| Long-term liabilities            | 35,011     | 28,786     |
| Total liabilities                | 200,967    | 109,131    |
| Net position:                    |            |            |
| Net investment in capital assets | 120,533    | 142,111    |
| Unrestricted                     | 720,944    | 311,731    |
| Total net position               | \$ 841,477 | \$ 453,842 |

At the end of the current year, the Board reports a positive balance in both categories of net position. The same situation held true for the prior fiscal year.

The Board's net position increased by \$387,635 during the current fiscal year. This increase represents the degree to which licensing and examination fees exceeded operating expenses. Key elements of this increase in net position are as follows:

Changes in Net Position

|                                                      | <u>2013</u>              | <u>2012</u>              |
|------------------------------------------------------|--------------------------|--------------------------|
| Program revenues:                                    |                          |                          |
| Charges for services                                 | \$ 1,537,393             | \$ 935,341               |
| General revenues:                                    |                          |                          |
| Monetary penalties                                   | <u>191,765</u>           | <u>67,611</u>            |
| Total revenues                                       | <u>1,729,158</u>         | <u>1,002,952</u>         |
| Licensing and enforcement expenses                   | <u>1,140,203</u>         | <u>1,074,910</u>         |
| Increase (decrease) in net position before transfers | 588,955                  | (71,958)                 |
| Transfers/(net)                                      | <u>(201,320)</u>         | <u>(87,911)</u>          |
| Increase (decrease) in net position:                 | 387,635                  | (159,869)                |
| Net position - July 1                                | <u>453,842</u>           | <u>613,711</u>           |
| Net position - June 30                               | <u><u>\$ 841,477</u></u> | <u><u>\$ 453,842</u></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, unrestricted 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

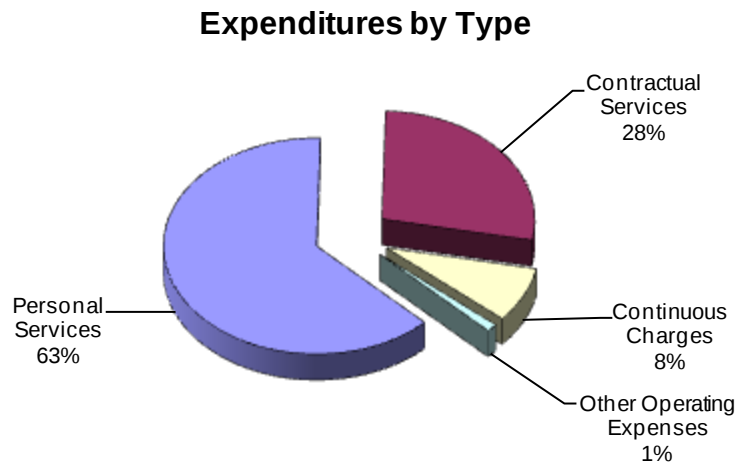
At the end of the current fiscal year, the Board's special revenue funds reported combined ending fund balances of \$750,955. The committed portion of the ending fund balances is \$748,605, meaning it is available for spending at the Board's discretion.

The Operating Fund is the primary operating fund of the Board. At the end of the current fiscal year, the total fund balance of the Operating Fund was \$425,259. As a measure of the Operating Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The Operating Fund balance represents approximately 38 percent of total expenditures.

The fund balance of the Board's Operating Fund increased by \$292,906 during the current fiscal year. Key factors affecting the change in fund balance are as follows:

- The Board transferred a net of \$117,532 from the Operating Fund into the Trust Account.
- Revenues from licensing and examination fees increased by \$597,052 (64%) over the previous year.
- Transfers to the General Fund decreased by \$10,745 (53%).
- Contractual services expenses increased by \$56,769 (23%), including: Merchant Card fees increased by \$10,385 (54%) due to the increase in on-line credit card payments due to the fee increase that went into effect January 1, 2013. Legal Services provided to the Board by the Office of the Attorney General increased by \$8,439 (81%). Fees for Architectural & Engineering Services increased by \$7,182 (100%) related to the office space renovation planned for the summer of 2013. Telecommunication cost increased by \$3,110 (56%) due to an upgrade in mobile equipment and services.

At the end of the current fiscal year, the total fund balance of the Trust Account was \$325,696. On September 18, 2012 the Board initiated Board Policy #1 – Trust Account. This policy states that it shall be the policy of the Board to maintain funds equal to approximately three months of the operating budget. As a result of the fee increase that went into effect on January 1, 2013, the Board transferred a net total of \$117,532 from the Operating Fund into the Trust Account.



### Revenues, Expenditures, and Fund Balances Operating and Special Enforcement Funds Combined



#### 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. The Board budgeted total expenditures of \$1,589,773 and there were no budget amendments. During the year, revenues exceeded budgetary estimates primarily due to an increase in the number of licensees and CPA Examination applicants. Actual expenditures were less than budgetary estimates.

Recognizing that additional revenues would be necessary to cover operating expenses, the Board initiated a regulatory change to increase fees in January 2008. The final phase of this fee package was approved in September 2012 and became effective on January 1, 2013. The Board anticipates that this fee increase will sustain its operational needs for at least the next six years.

#### Capital Assets

The Board's net investment in capital assets at June 30, 2013, amounts to \$120,533 (net of accumulated depreciation). This amount consists of software costs for the Board's computerized licensing system and capitalized leasehold improvements. Additional information on the Board's capital assets can be found in Note 5 on page 17 of this report.

#### Economic Factors and Next Year's Budget and Rates

The Board's major source of revenue is licensing and examination fees. The Board experienced a slight increase in the number of licensed individuals, firms and CPA Examination candidates in the current fiscal year. However, revenue from licensing and examination fees has increased significantly resulting from the fee increase that became effective on January 1, 2013.

#### CPA License Holders

|             | <u>At June 30, 2013</u> | <u>At June 30, 2012</u> |
|-------------|-------------------------|-------------------------|
| Individuals | 25,627                  | 24,936                  |
| Firms       | <u>1,230</u>            | <u>1,218</u>            |
| Total       | <u>26,857</u>           | <u>26,154</u>           |

On-going expenditures during the current fiscal year are increasing, primarily in the areas of personal services, information technology, legal services and fiscal services. The Board is also planning on significant one-time costs in the next year related to the office expansion/renovation and the purchase of a new licensing database system. All of these factors were considered in preparing the Board's budget for the fiscal year ending June 30, 2014.

## **FINANCIAL STATEMENTS**

VIRGINIA BOARD OF ACCOUNTANCY  
STATEMENT OF NET POSITION  
As of June 30, 2013  
With Comparative Figures for 2012

|                                                          | Governmental Activities |                   |
|----------------------------------------------------------|-------------------------|-------------------|
|                                                          | 2013                    | 2012              |
| Assets:                                                  |                         |                   |
| Cash held by the Treasurer of Virginia (Note 3)          | \$ 825,561              | \$ 399,781        |
| Accounts receivable (Note 4)                             | 94,000                  | 18,750            |
| Prepaid items (Note 1E)                                  | 2,350                   | 2,331             |
| Capital assets, net of accumulated depreciation (Note 5) | <u>120,533</u>          | <u>142,111</u>    |
| Total Assets                                             | <u>1,042,444</u>        | <u>562,973</u>    |
| Liabilities:                                             |                         |                   |
| Accounts payable                                         | 31,774                  | 15,363            |
| Accrued salaries payable                                 | 46,182                  | 46,232            |
| Due to the State Literary Fund (Note 4)                  | 88,000                  | 18,750            |
| Compensated absences payable (Note 6)                    | <u>35,011</u>           | <u>28,786</u>     |
| Total Liabilities                                        | <u>200,967</u>          | <u>109,131</u>    |
| Net Position:                                            |                         |                   |
| Net Investment in capital assets (Note 5)                | 120,533                 | 142,111           |
| Unrestricted                                             | <u>720,944</u>          | <u>311,731</u>    |
| Total Net Position                                       | <u>\$ 841,477</u>       | <u>\$ 453,842</u> |

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, 2013  
With Comparative Figures for 2012

|                                                 | Governmental Activities |                                          |                                                          |                                                          |
|-------------------------------------------------|-------------------------|------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
|                                                 | 2013                    |                                          | 2012                                                     |                                                          |
|                                                 | Expenses                | Program Revenues<br>Charges for Services | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
| <u>Functions/programs:</u>                      |                         |                                          |                                                          |                                                          |
| Governmental activities                         |                         |                                          |                                                          |                                                          |
| Licensing examination and enforcement functions | <u>\$ 1,140,203</u>     | <u>\$ 1,537,393</u>                      | \$ 397,190                                               | \$ (139,569)                                             |
| General revenues:                               |                         |                                          |                                                          |                                                          |
| Monetary penalties                              |                         |                                          | 191,765                                                  | 67,611                                                   |
| Transfers:                                      |                         |                                          |                                                          |                                                          |
| Transfers to the State General Fund             |                         |                                          | (9,555)                                                  | (20,300)                                                 |
| Transfers to the State Literary Fund            |                         |                                          | (191,765)                                                | (67,611)                                                 |
| Total general revenues and transfers            |                         |                                          | (9,555)                                                  | (20,300)                                                 |
| Changes in net position                         |                         |                                          | 387,635                                                  | (159,869)                                                |
| Net position, July 1                            |                         |                                          | 453,842                                                  | 613,711                                                  |
| Net position, June 30                           |                         |                                          | <u>\$ 841,477</u>                                        | <u>\$ 453,842</u>                                        |

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

VIRGINIA BOARD OF ACCOUNTANCY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2013  
With Comparative Figures for 2012

|                                                 | Special Revenue Funds |                   |                   |                   |
|-------------------------------------------------|-----------------------|-------------------|-------------------|-------------------|
|                                                 | Operating<br>Fund     | Trust<br>Account  | Total             |                   |
|                                                 |                       |                   | 2013              | 2012              |
| Assets:                                         |                       |                   |                   |                   |
| Cash held by the Treasurer of Virginia (Note 3) | \$ 499,865            | \$ 325,696        | \$ 825,561        | \$ 399,781        |
| Accounts receivable (Note 4)                    | 94,000                | -                 | 94,000            | 18,750            |
| Prepaid items (Note 1E)                         | 2,350                 | -                 | 2,350             | 2,331             |
| Total assets                                    | <u>596,215</u>        | <u>325,696</u>    | <u>921,911</u>    | <u>420,862</u>    |
| Liabilities and fund balance:                   |                       |                   |                   |                   |
| Liabilities:                                    |                       |                   |                   |                   |
| Accounts payable                                | \$ 31,774             | \$ -              | \$ 31,774         | \$ 15,363         |
| Accrued salaries payable                        | 46,182                | -                 | 46,182            | 46,232            |
| Due to the State Literary Fund (Note 4)         | 8,750                 | -                 | 8,750             | 4,500             |
| Deferred revenue                                | 84,250                | -                 | 84,250            | 14,250            |
| Total liabilities                               | <u>170,956</u>        | <u>-</u>          | <u>170,956</u>    | <u>80,345</u>     |
| Fund balance:                                   |                       |                   |                   |                   |
| Nonspendable:                                   |                       |                   |                   |                   |
| Prepaid insurance                               | 2,350                 | -                 | 2,350             | 2,331             |
| Committed for:                                  |                       |                   |                   |                   |
| Board operations                                | 422,909               | 325,696           | 748,605           | 338,186           |
| Total fund balance                              | <u>425,259</u>        | <u>325,696</u>    | <u>750,955</u>    | <u>340,517</u>    |
| Total liabilities and fund balance              | <u>\$ 596,215</u>     | <u>\$ 325,696</u> | <u>\$ 921,911</u> | <u>\$ 420,862</u> |

Amounts reported for governmental activities in the Statement of Net Position are different because:

|                                                                                                                                                |                   |                   |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Total fund balance (per above)                                                                                                                 | 750,955           | 340,517           |
| Deferred Revenue Not Due to the State Literary Fund                                                                                            | 5,000             | -                 |
| Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds. (Note 5)        | 120,533           | 142,111           |
| Long-term liability for compensated absences is not due and payable in the current period and therefore is not reported in the funds. (Note 6) | <u>(35,011)</u>   | <u>(28,786)</u>   |
| Net position of governmental activities (page 8)                                                                                               | <u>\$ 841,477</u> | <u>\$ 453,842</u> |

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, 2013  
With Comparative Figures for 2012

|                                                   | Special Revenue Funds |                  |              |            |
|---------------------------------------------------|-----------------------|------------------|--------------|------------|
|                                                   | Operating<br>Fund     | Trust<br>Account | Total        |            |
|                                                   |                       |                  | 2013         | 2012       |
| Revenues:                                         |                       |                  |              |            |
| Licensing and examination fees                    | \$ 1,532,393          | \$ -             | \$ 1,532,393 | \$ 935,341 |
| Monetary penalties                                | 112,515               | -                | 112,515      | 53,361     |
| Total revenues                                    | 1,644,908             | -                | 1,644,908    | 988,702    |
| Expenditures:                                     |                       |                  |              |            |
| Licensing, examination and enforcement functions: |                       |                  |              |            |
| Personal services                                 | 699,686               | -                | 699,686      | 694,317    |
| Contractual services                              | 308,472               | -                | 308,472      | 251,703    |
| Supplies and materials                            | 6,706                 | -                | 6,706        | 9,093      |
| Transfer payments                                 | 359                   | -                | 359          | 4,028      |
| Continuous charges                                | 91,501                | -                | 91,501       | 92,370     |
| Equipment purchases                               | 5,676                 | -                | 5,676        | 5,298      |
| Total expenditures                                | 1,112,400             | -                | 1,112,400    | 1,056,809  |
| Excess/(deficiency) of revenues over expenditures | 532,508               | -                | 532,508      | (68,107)   |
| Other financing sources/(uses):                   |                       |                  |              |            |
| Transfers to/from other funds (Note 7)            | (117,532)             | 117,532          | -            | -          |
| Transfers to the State General Fund               | (9,555)               | -                | (9,555)      | (20,300)   |
| Transfers to the State Literary Fund              | (112,515)             | -                | (112,515)    | (53,361)   |
| Total other financing sources and uses            | (239,602)             | 117,532          | (122,070)    | (73,661)   |
| Net change in fund balance                        | 292,906               | 117,532          | 410,438      | (141,768)  |
| Fund balance, July 1                              | 132,353               | 208,164          | 340,517      | 482,285    |
| Fund balance, June 30                             | \$ 425,259            | \$ 325,696       | \$ 750,955   | \$ 340,517 |

VIRGINIA BOARD OF ACCOUNTANCY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, continued

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

With Comparative Figures for 2012

|                                                                                                                                                                                                                                                                                                                 | <u>Special Revenue Funds</u> |                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------|
|                                                                                                                                                                                                                                                                                                                 | <u>Total</u>                 |                     |
|                                                                                                                                                                                                                                                                                                                 | <u>2013</u>                  | <u>2012</u>         |
| Amounts reported for governmental activities in the Statement of Activities are different because:                                                                                                                                                                                                              |                              |                     |
| Net change in fund balance (page 11)                                                                                                                                                                                                                                                                            | 410,438                      | (141,768)           |
| Governmental funds report revenue when they are collected within sixty days of the end of the current fiscal year. However, in the Statement of Activities revenues are recorded when earned. This is the amount of deferred revenue that is not due to the State Literary Fund.                                | 5,000                        | -                   |
| 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. | (21,578)                     | (21,577)            |
| 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.                                                                                     | <u>(6,225)</u>               | <u>3,476</u>        |
| Changes in net position of governmental activities (page 9)                                                                                                                                                                                                                                                     | <u>\$ 387,635</u>            | <u>\$ (159,869)</u> |

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, 2013  
With Comparative Figures for 2012

|                                                      | Operating Fund     |                 |                   |                                                             |                   |
|------------------------------------------------------|--------------------|-----------------|-------------------|-------------------------------------------------------------|-------------------|
|                                                      | 2013               |                 |                   |                                                             | 2012              |
|                                                      | Original<br>Budget | Final<br>Budget | Actual<br>Amounts | Final Budget/<br>Actual Variance<br>Positive/<br>(Negative) | Actual<br>Amounts |
| Revenues:                                            |                    |                 |                   |                                                             |                   |
| Licensing and examination fees                       | \$ 1,442,356       | \$1,442,356     | \$ 1,531,393      | \$ 89,037                                                   | \$ 935,341        |
| Monetary penalties                                   | 68,000             | 68,000          | 108,265           | 40,265                                                      | 57,361            |
| Total revenues                                       | 1,510,356          | 1,510,356       | 1,639,658         | 129,302                                                     | 992,702           |
| Expenditures:                                        |                    |                 |                   |                                                             |                   |
| Licensing, examination and enforcement functions:    |                    |                 |                   |                                                             |                   |
| Personal services                                    | 701,762            | 701,762         | 699,736           | 2,026                                                       | 697,149           |
| Contractual services                                 | 747,288            | 747,288         | 292,058           | 455,230                                                     | 249,966           |
| Supplies and materials                               | 14,500             | 14,500          | 6,706             | 7,794                                                       | 9,093             |
| Transfer payments                                    | -                  | -               | 359               | (359)                                                       | 4,028             |
| Continuous charges                                   | 120,873            | 120,873         | 91,523            | 29,350                                                      | 92,393            |
| Equipment purchases                                  | 5,350              | 5,350           | 5,676             | (326)                                                       | 5,298             |
| Total expenditures                                   | 1,589,773          | 1,589,773       | 1,096,058         | 493,715                                                     | 1,057,927         |
| Excess/(deficiency) of revenues<br>over expenditures | (79,417)           | (79,417)        | 543,600           | 623,017                                                     | (65,225)          |
| Other financing sources/(uses):                      |                    |                 |                   |                                                             |                   |
| Transfers from/(to) other funds (Note 7)             | -                  | (117,532)       | (117,532)         | -                                                           | 206,000           |
| Transfers to the State General Fund                  | (9,555)            | (9,555)         | (9,555)           | -                                                           | (20,300)          |
| Transfers to the State Literary Fund                 | (68,000)           | (68,000)        | (108,265)         | (40,265)                                                    | (57,361)          |
| Total other financing sources and uses               | (77,555)           | (195,087)       | (235,352)         | (40,265)                                                    | 128,339           |
| Net change in fund balance                           | (156,972)          | (274,504)       | 308,248           | 582,752                                                     | 63,114            |
| Fund balance, July 1                                 | 191,617            | 191,617         | 191,617           | -                                                           | 128,503           |
| Fund balance, June 30                                | \$ 34,645          | \$ (82,887)     | \$ 499,865        | \$ 582,752                                                  | \$ 191,617        |

PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING  
SPECIAL REVENUE FUND  
For the Year Ended June 30, 2013  
With Comparative Figures for 2012

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This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual data prepared on the cash basis. Actual amounts reported on the modified accrual basis of accounting are different because:

|                                                            | Operating Fund    |                  |
|------------------------------------------------------------|-------------------|------------------|
|                                                            | 2013              | 2012             |
|                                                            | Actual            | Actual           |
|                                                            | Amounts           | Amounts          |
| Net change in fund balance (page 13)                       | 308,248           | 63,114           |
| Accrued revenues on modified accrual basis                 | 5,250             | (4,000)          |
| Accrued expenditures on modified accrual basis             | (16,342)          | 1,118            |
| Accrued transfers on modified accrual basis                | <u>(4,250)</u>    | <u>4,000</u>     |
| Change in fund balance on modified accrual basis (page 11) | <u>\$ 292,906</u> | <u>\$ 64,232</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, 2013

### 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 financial health, safety, and welfare. The Board's major activities include reviewing applications to ensure applicants are competent to enter the public accounting profession; 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 committed 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 Trust Account. The Trust Account is 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, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its operating fund. Both funds are considered major funds of the Board.

#### 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 Position 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 exam applicants and regulants. 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.

*Governmental Fund Financial Statements* – The financial statements also include separate fund financial statements. The Operating Fund and Trust Account 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.

D. Fund Balance

With the implementation of GASB No. 54, the fund balance classifications are reported as Non-spendable, Restricted, Committed, Assigned, and Unassigned. The Non-spendable fund balance includes amounts that cannot be spent because they are either a) not in spendable form or b) legally required to be maintained intact such as the corpus of a permanent fund. The Committed fund balance includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority through enabling legislation. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

E. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

F. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

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.

### 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 and administrative fees from regulants and non-regulants found guilty of violating the Board's statutes or regulations. The proceeds from penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. The proceeds from administrative fees are deposited into the Board's Operating Fund. Consequently, receivables are partially 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, 2013, the amount Due to the State Literary Fund for collections on monetary penalties was \$88,000.

|                                       | <u>June 30, 2013</u> |
|---------------------------------------|----------------------|
| Gross receivables                     | \$330,727            |
| Less: allowance for doubtful accounts | <u>(236,727)</u>     |
| Net Receivables                       | <u>\$94,000</u>      |

### 5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2013:

|                               | Balance at<br>June 30, 2012 | Acquired           | Deleted     | Balance at<br>June 30, 2013 |
|-------------------------------|-----------------------------|--------------------|-------------|-----------------------------|
| Software                      | \$ 183,388                  | \$ -               | \$ -        | \$ 183,388                  |
| Tenant improvements           | <u>32,383</u>               | <u>-</u>           | <u>-</u>    | <u>32,383</u>               |
| Total depreciable assets      | <u>215,771</u>              | <u>-</u>           | <u>-</u>    | <u>215,771</u>              |
| Less accumulated depreciation | <u>(73,660)</u>             | <u>(21,578)</u>    | <u>-</u>    | <u>(95,238)</u>             |
| Capital assets, net           | <u>\$ 142,111</u>           | <u>\$ (21,578)</u> | <u>\$ -</u> | <u>\$ 120,533</u>           |

The Board capitalizes all software and equipment with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. This includes capitalizing personal service costs and vendor payments associated with developing its licensing software for internal use. The Board capitalized the tenant improvement costs associated with preparing the Perimeter Center building for occupancy to the extent that they exceeded \$5,000, in addition to costs associated with reconfiguration of existing office space during Fiscal Year 2011.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs is expensed on a straight-line basis over their estimated useful life of ten years. Depreciation of tenant improvement costs is expensed on a straight-line basis over the ten year life of the lease agreement.

6. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Position represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees but not taken at June 30, 2013. 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><br><u>June 30, 2012</u> | <u>Increases</u> | <u>Decreases</u>  | <u>Balance at</u><br><u>June 30, 2013</u> |
|-------------------------------------------|------------------|-------------------|-------------------------------------------|
| <u>\$28,786</u>                           | <u>\$31,432</u>  | <u>\$(25,207)</u> | <u>\$35,011</u>                           |

7. TRANSFERS TO AND FROM THE TRUST ACCOUNT

In accordance with § 54.1-4405.1 of the Code of Virginia, a special nonreverting fund known as the Board of Accountancy Trust Account (the Trust Account) was created. The purpose of the Trust Account is to provide a supplemental source of funds to the Board on a timely basis for its use in the study, research, investigation or adjudication of matters involving possible violations of the 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 and cannot otherwise be funded through the Operating Fund. In November, 2012 the Board transferred \$205,408 from the Trust Account to the Operating Fund to provide needed cash for ongoing expenditures which left cash balance of only \$2,756 remaining in the Trust Account. After the fee increase went into effect on January 1, 2013, the Board was able to transfer \$212,514 in May, 2013 and another \$110,426 in June, 2013 from the Operating Fund back into the Trust Account, creating a cash balance in the Trust Account on June 30, 2013 of \$325,696.

8. LEASE COMMITMENTS

On August 2, 2007, the Board moved its offices to the Perimeter Center Building at 9960 Mayland Drive. The move brought the Board together with five other state agencies to facilitate the use of shared space and services. On August 29, 2007, the Board entered into a ten-year operating lease for the new space. The Board is undergoing an office space expansion/renovation during June-September 2013. Increased costs related to the expansion are included in the future obligations listed below.

A summary of future obligations under the Board's lease agreement as of June 30, 2013, follows:

| <u>Year Ending June 30,</u> | <u>Amount</u>     |                              |
|-----------------------------|-------------------|------------------------------|
| 2014                        | \$ 69,593         |                              |
| 2015                        | 72,354            |                              |
| 2016                        | 74,344            |                              |
| 2017                        | 76,388            |                              |
| 2018                        | <u>58,823</u>     | (Lease expires on 3/31/2018) |
|                             | <u>\$ 351,502</u> |                              |

9. 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 in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the Board, has overall responsibility for contributions to these plans.

10. 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.

## VIRGINIA BOARD OF ACCOUNTANCY

### BOARD MEMBERSHIP

As of June 30, 2013

The Board is comprised of five Certified Public Accountants who hold Virginia licenses, one educator in the field of accountancy who holds a Virginia license, and one public member. The Governor appoints each member to a term of four years and no member may serve more than two consecutive terms.

Tyrone E. Dickerson, CPA  
Chairman

Andrea M. Kilmer, CPA, CFF, CGMA  
Vice Chair

W. Barclay Bradshaw, CPA

Robert J. Cochran, Ph.D., CPA

Marc B. Moyers, CPA

Stephanie S. Saunders, CPA

Vacant (public member)



# Commonwealth of Virginia

*Auditor of Public Accounts*

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

March 12, 2014

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John M. O'Bannon, III  
Chairman, Joint Legislative Audit  
And Review Commission

Board Members  
Virginia Board of Accountancy

## INDEPENDENT AUDITOR'S REPORT

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Virginia Board of Accountancy** (Board) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### ***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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 financial statement presentation.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Board as of June 30, 2013, and the respective changes in its financial position thereof and the respective budgetary comparison for the operating fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 A, 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 activities and 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, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Prior-Year Summarized Comparative Information***

We have previously audited the Board's 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated February 25, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 12, 2014, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Board's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Matthew S. Marsden". The signature is written in a cursive, flowing style.

AUDITOR OF PUBLIC ACCOUNTS