

THE VIRGINIA BOARD OF ACCOUNTANCY

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2016

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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, 2016.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$2,501,599 (net position), an increase of \$690,698 in comparison with the prior year. Of this amount, \$2,359,665 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 \$3,258,511, an increase of \$756,796 in comparison with the prior year. The committed portion of the fund balance is \$3,255,000 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 \$450,610, or approximately 28 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 \$2,807,901.

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 that was installed in FY 2009 which is used for licensing and enforcement of CPAs and CPA firms which includes online licensing renewals and applications. 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, database system that will meet our specific business processes and work flow needs. The Board is actively in the process of developing a request for proposal and has received approval from the Chief Information Officer of the Commonwealth for this planned procurement and inclusion in the Board's IT Strategic Plan. The Board anticipates this major procurement to occur in FY 2017.

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 deferred outflows of resources, and liabilities and deferred inflows of resources; net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate 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 15 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 and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$2,501,599 at the close of the most recent fiscal year.

By far the largest portion of the Board's net position (94 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations. The remaining 6 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.

Condensed Summary of Net Position

| | as of June 30, | | Increase/(Decrease) | |
|--|---------------------|---------------------|---------------------|------------|
| | 2016 | 2015 | Amount | Percent |
| Current assets | \$ 3,386,591 | \$ 2,591,125 | \$ 795,466 | 31% |
| Capital assets | 141,934 | 176,210 | (34,276) | -19% |
| Total assets | <u>3,528,525</u> | <u>2,767,335</u> | <u>761,190</u> | <u>28%</u> |
| Deferred outflows | 246,505 | 178,461 | 68,044 | 38% |
| Total assets and deferred outflows | <u>3,775,030</u> | <u>2,945,796</u> | <u>829,234</u> | <u>28%</u> |
| Current liabilities | 165,510 | 127,021 | 38,489 | 30% |
| Long-term liabilities | 1,033,921 | 857,874 | 176,047 | 21% |
| Total liabilities | <u>1,199,431</u> | <u>984,895</u> | <u>214,536</u> | <u>22%</u> |
| Deferred inflows | 74,000 | 150,000 | (76,000) | -51% |
| Total liabilities and deferred inflows | <u>1,273,431</u> | <u>1,134,895</u> | <u>138,536</u> | <u>12%</u> |
| Net position: | | | | |
| Net investment in capital assets | 141,934 | 176,210 | (34,276) | -19% |
| Unrestricted | <u>2,359,665</u> | <u>1,634,691</u> | <u>724,974</u> | <u>44%</u> |
| Total net position | <u>\$ 2,501,599</u> | <u>\$ 1,810,901</u> | <u>\$ 690,698</u> | <u>38%</u> |

The Board's net position increased by \$690,698 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

| | as of June 30, | | Increase/(Decrease) | |
|--|----------------|--------------|---------------------|---------|
| | 2016 | 2015 | Amount | Percent |
| Program revenues: | | | | |
| Charges for services | \$ 2,399,309 | \$ 2,260,417 | \$ 138,892 | 6% |
| General revenues: | | | | |
| Monetary penalties | 271,127 | 196,139 | 74,988 | 38% |
| Total revenues | 2,670,436 | 2,456,556 | 213,880 | 9% |
| Licensing and enforcement expenses | 1,703,801 | 1,480,089 | 223,712 | 15% |
| Increase (decrease) in net position before transfers | 966,635 | 976,467 | (9,832) | -1% |
| Transfers/(net) | (275,937) | (202,967) | (72,970) | 36% |
| Increase (decrease) in net position: | 690,698 | 773,500 | (82,802) | -11% |
| Net position - July 1 | 1,810,901 | 1,836,401 | (25,500) | -1% |
| Effects of GASB 68 & 71 | - | (799,000) | 799,000 | -100% |
| Net position - beginning of the year, adjusted | 1,810,901 | 1,037,401 | 773,500 | 75% |
| Net position - June 30 | \$ 2,501,599 | \$ 1,810,901 | \$ 690,698 | 38% |

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 \$3,258,511. The committed portion of the ending fund balances is \$3,255,000, 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 \$450,610. Per Board Policy #1 – Trust Account, it is the policy of the Board to maintain funds equal to three months of the operating budget in the Operating Fund. Funds

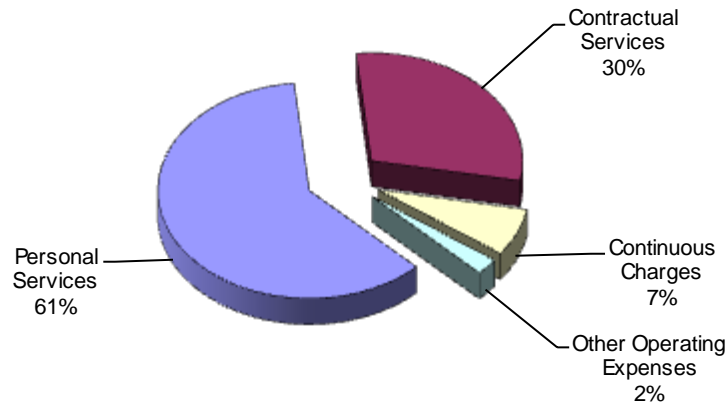
exceeding this amount are transferred to the Trust Account on at least a quarterly basis. During FY 2016 the Board transferred \$717,393 from the Operating Fund into the Trust Account.

The total fund balance of the Board increased by \$756,796 during the current fiscal year. Key factors affecting the change in fund balance are as follows:

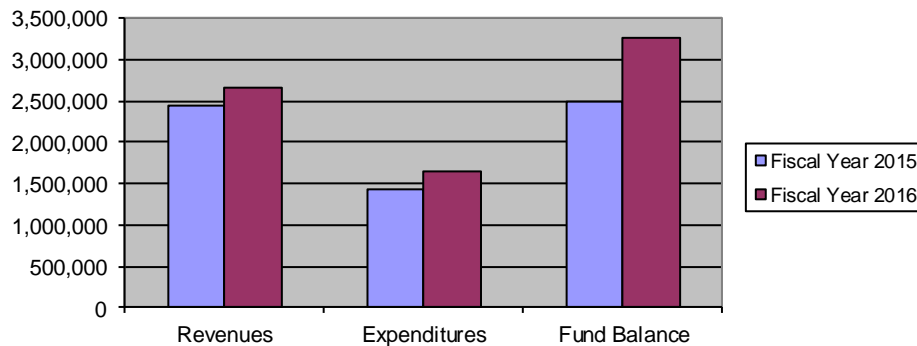
- Revenues from licensing and examination fees increased by \$119,431, 5% over the previous year. This increase is largely related to the implementation of the \$20 re-exam application fee which became effective on January 5, 2016. The Board collected a total of \$61,220 in re-exam application fees during FY 2016. In addition, revenue received for application fees increased by \$49,180 due to a 12% increase in first time candidates applying to sit for the CPA exam combined with a 7% increase in the number of new CPA licenses issued. Also, per Virginia Acts of Assembly – Chapter 732 - §3-3.03, approved April 10, 2016 revenue from interest earnings of \$19,409 were allocated to the Board in FY 2016. Interest earnings have not been allocated to the Board since FY 2010.
- Expenditures increased by \$214,588 (15%) over the previous year:
 - ♦ Personal services expenses increased by \$84,510 (9.3%) primarily related to 2% salary increase and salary compression compensation effective 8/10/2015 combined with a new IT system analyst position that was filled for over 5 months during FY 2016. In addition, contribution rates for VRS administered programs increased from 12.33% in FY 2015 to 14.22% in FY 2016.
 - ♦ The Board's contractual expenses increased by \$114,030 (31%) in FY 2016, to include; \$50,000 for management support services related to the Board's request for proposal (RFP) for a new licensing and database system, \$19,808 increase in VITA costs related to duplicate server cost incurred as part of a server migration, \$9,272 increase related to one-time costs for management services from our system vendor to provide on-site support for the server migration and upgrade of our licensing and database system, \$4,159 increase in cost related to providing special accommodations for Virginia CPA exam candidates and a \$8,927 increase in cost for legal services provided by the Office of the Attorney General.
 - ♦ Equipment expenses increased by \$18,110 (281.5%) related to one-time expenses primarily related to an office expansion/renovation project related to new Enforcement offices.

At the end of the current fiscal year, the total fund balance of the Trust Account was \$2,807,901. During FY 2016, the Board transferred a net total of \$717,393 from the Operating Fund into the Trust Account.

Expenditures by Type



Revenues, Expenditures, and Fund Balances Operating and Trust Account 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 plus any pending budget execution transactions and amendments. The Board budgeted total expenditures of \$1,886,458. During the year, revenues were more than budgetary estimates due to the increase in monetary penalties collected of \$25,855, combined with an increase in CPA exam and initial CPA licensure applications and the revenue received from interest earnings. Actual expenditures were less than budgetary estimates.

Capital Assets

The Board's net investment in capital assets at June 30, 2016, amounts to \$141,934 (net of accumulated depreciation). This amount consists of software costs for the Board's computerized licensing system, capitalized leasehold improvements and modular office furniture systems. Additional information on the Board's capital assets can be found in Note 5 on page 19 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 (1.8%) combined with a slight decrease in the number of licensed firms (2.4%) in the current fiscal year. The number of first time exam candidates applying to sit for the CPA exam increased (12%) in the current fiscal year. The increase in first time exam candidates is attributed to the April 1, 2017 launch of the next version of the Uniform CPA Examination. Revenue from licensing and examination fees has increased by \$119,431, primarily resulting from the implementation of the \$20 re-exam application fee which became effective on January 5, 2016 combined with an increase in first time CPA exam candidates and initial application for licensure.

CPA License Holders

| | <u>At June 30, 2016</u> | <u>At June 30, 2015</u> |
|-------------|-------------------------|-------------------------|
| Individuals | 27,322 | 26,830 |
| Firms | <u>1,157</u> | <u>1,186</u> |
| Total | <u>28,479</u> | <u>28,016</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 costs beginning in FY2017 related to 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, 2017.

FINANCIAL STATEMENTS

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF NET POSITION
As of June 30, 2016
With Comparative Figures for 2015

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | 2016 | 2015 |
| Assets: | | |
| Cash held by the Treasurer of Virginia (Note 3) | \$ 3,350,045 | \$ 2,573,312 |
| Accounts receivable (Note 4) | 33,035 | 15,273 |
| Prepaid items (Note 1E) | 3,511 | 2,540 |
| Capital assets, net of accumulated depreciation (Note 5) | <u>141,934</u> | <u>176,210</u> |
| Total Assets | <u>3,528,525</u> | <u>2,767,335</u> |
| Deferred Outflow of Resources: | | |
| Deferred outflows related to pension (Note 9) | <u>246,505</u> | <u>178,461</u> |
| Total Deferred Outflows | <u>246,505</u> | <u>178,461</u> |
| Liabilities: | | |
| Accounts payable | 36,788 | 12,939 |
| Accrued salaries payable | 59,069 | 61,298 |
| Due to the State Literary Fund (Note 4) | 31,134 | 14,674 |
| Long-term liabilities due within one year | | |
| Compensated absences payable (Note 6) | 38,519 | 38,110 |
| Long-term liabilities due in more than one year | | |
| Compensated absences payable (Note 6) | 11,921 | 18,874 |
| Net Pension Liability (Note 9) | <u>1,022,000</u> | <u>839,000</u> |
| Total Liabilities | <u>1,199,431</u> | <u>984,895</u> |
| Deferred Inflows of Resources: | | |
| Deferred inflows related to pension (Note 9) | <u>74,000</u> | <u>150,000</u> |
| Total Deferred Inflows | <u>74,000</u> | <u>150,000</u> |
| Net Position: | | |
| Net investment in capital assets (Note 5) | 141,934 | 176,210 |
| Unrestricted | <u>2,359,665</u> | <u>1,634,691</u> |
| Total Net Position | <u>\$ 2,501,599</u> | <u>\$ 1,810,901</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, 2016
With Comparative Figures for 2015

| | Governmental Activities | | | |
|--|-------------------------|---------------------|---------------|---------------------|
| | 2016 | | 2015 | |
| | Program | Net (Expense) | Net (Expense) | |
| | Revenues | Revenue and | Revenue and | |
| | Charges for | Changes in | Changes in | |
| | Expenses | Services | Net Position | Net Position |
| <u>Functions/programs:</u> | | | | |
| Governmental activities | | | | |
| Licensing, examination and enforcement functions | <u>\$ 1,703,801</u> | <u>\$ 2,399,309</u> | \$ 695,508 | \$ 780,328 |
| General revenues: | | | | |
| Monetary penalties | | 271,127 | | 196,139 |
| Transfers: | | | | |
| Transfers to the State General Fund | | (4,810) | | (6,828) |
| Transfers to the State Literary Fund | | (271,127) | | (196,139) |
| Total general revenues and transfers | | (4,810) | | (6,828) |
| Changes in net position | | 690,698 | | 773,500 |
| Net position - beginning of year | | 1,810,901 | | 1,836,401 |
| Restatement | | - | | (799,000) |
| Net position - beginning of the year, adjusted | | 1,810,901 | | 1,037,401 |
| Net position, June 30 | | <u>\$ 2,501,599</u> | | <u>\$ 1,810,901</u> |

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

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2016
With Comparative Figures for 2015

| | Special Revenue Funds | | | |
|---|-----------------------|---------------------|---------------------|---------------------|
| | Operating Fund | Trust Account | Total | |
| | | | 2016 | 2015 |
| Assets: | | | | |
| Cash held by the Treasurer of Virginia (Note 3) | \$ 542,144 | \$ 2,807,901 | \$ 3,350,045 | \$ 2,573,312 |
| Accounts receivable (Note 4) | 33,035 | - | 33,035 | 15,273 |
| Prepaid items (Note 1E) | 3,511 | - | 3,511 | 2,540 |
| Total assets | <u>\$ 578,690</u> | <u>\$ 2,807,901</u> | <u>\$ 3,386,591</u> | <u>\$ 2,591,125</u> |
| Liabilities, deferred inflows of resources and fund balance: | | | | |
| Liabilities: | | | | |
| Accounts payable | 36,788 | - | 36,788 | 12,939 |
| Accrued salaries payable | 59,069 | - | 59,069 | 61,298 |
| Due to the State Literary Fund (Note 4) | 13,093 | - | 13,093 | 5,809 |
| Total liabilities | <u>108,950</u> | <u>-</u> | <u>108,950</u> | <u>80,046</u> |
| Deferred Inflows of Resources: | | | | |
| Revenue not currently available | 19,130 | - | 19,130 | 9,364 |
| Total deferred inflows of resources | <u>19,130</u> | <u>-</u> | <u>19,130</u> | <u>9,364</u> |
| Fund balance: | | | | |
| Nonspendable: | | | | |
| Prepaid insurance/other | 3,511 | - | 3,511 | 2,540 |
| Committed for: | | | | |
| Board operations | 447,099 | 2,807,901 | 3,255,000 | 2,499,175 |
| Total fund balance | <u>450,610</u> | <u>2,807,901</u> | <u>3,258,511</u> | <u>2,501,715</u> |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 578,690</u> | <u>\$ 2,807,901</u> | <u>\$ 3,386,591</u> | <u>\$ 2,591,125</u> |

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

VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET, continued
GOVERNMENTAL FUNDS
As of June 30, 2016
With Comparative Figures for 2015

| | Special Revenue Funds | |
|---|-------------------------------------|---------------------------|
| | Total | |
| | 2016 | 2015 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Total fund balance (per page 10) | \$ 3,258,511 | \$ 2,501,715 |
| Revenue not currently available - not due to the State Literary Fund. | 1,089 | 499 |
| Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds. (Note 5) | 141,934 | 176,210 |
| Long-term liability for compensated absences and net pension liability are not due and payable in the current period and therefore are not reported in the funds. (Note 6) and (Note 9) | (11,921) (38,519) (1,022,000) | (38,110) (839,000) |
| Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level. (Note 9) | | |
| Deferred outflow - Employer contributions made subsequent to measurement date. | 97,505 | 79,461 |
| Deferred outflow - Changes in proportion and differences between employer contributions and proportionate share of contributions. | 142,000 | 99,000 |
| Deferred outflow - Difference between expected and actual experience. | 7,000 | |
| Deferred inflow - Net difference between projected and actual earnings on pension plan investments. | (74,000) | (150,000) |
| Net position of governmental activities (page 8) | <u>\$ 2,501,599</u> | <u>\$ 1,829,775</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, 2016
With Comparative Figures for 2015

| | Special Revenue Funds | | | |
|---|-----------------------|------------------|--------------|--------------|
| | Operating Fund | Trust Account | Total | |
| | | | 2016 | 2015 |
| Revenues: | | | | |
| Licensing and examination fees | \$ 2,379,310 | \$ - | \$ 2,379,310 | \$ 2,259,879 |
| Interest income | 3,710 | 15,699 | 19,409 | - |
| Other revenues | - | - | - | 39 |
| Monetary penalties | 253,086 | - | 253,086 | 187,274 |
| Total revenues | 2,636,106 | 15,699 | 2,651,805 | 2,447,192 |
| Expenditures: | | | | |
| Licensing, examination and enforcement functions: | | | | |
| Personal services | 996,957 | - | 996,957 | 912,447 |
| Contractual services | 484,095 | - | 484,095 | 370,065 |
| Supplies and materials | 14,635 | - | 14,635 | 10,951 |
| Transfer payments | 717 | - | 717 | 5,087 |
| Continuous charges | 116,166 | - | 116,166 | 117,542 |
| Equipment purchases | 24,543 | - | 24,543 | 6,433 |
| Total expenditures | 1,637,113 | - | 1,637,113 | 1,422,525 |
| Excess of revenues over expenditures | 998,993 | 15,699 | 1,014,692 | 1,024,667 |
| Other financing sources/(uses): | | | | |
| Transfers to/from other funds (Note 7) | (717,393) | 717,393 | - | - |
| Transfers to the State General Fund | (4,810) | - | (4,810) | (6,828) |
| Transfers to the State Literary Fund | (253,086) | - | (253,086) | (187,274) |
| Total other financing sources and uses | (975,289) | 717,393 | (257,896) | (194,102) |
| Net change in fund balance | 23,704 | 733,092 | 756,796 | 830,565 |
| Fund balance, July 1 | 426,906 | 2,074,809 | 2,501,715 | 1,671,150 |
| Fund balance, June 30 | \$ 450,610 | \$ 2,807,901 | \$ 3,258,511 | \$ 2,501,715 |

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, continued

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

With Comparative Figures for 2015

| | Special Revenue Funds | |
|--|-----------------------|-------------------|
| | Total | |
| | 2016 | 2015 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Net change in fund balance (page 12) | \$ 756,796 | \$ 830,565 |
| 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 revenue not currently available that is not due to the State Literary Fund less prior year revenue not currently available that is not due to the State Literary Fund. | 590 | 499 |
| 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. | (34,276) | (41,831) |
| 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. | 6,544 | (4,194) |
| Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level. | | |
| Change in deferred outflow - Employer contributions made subsequent to measurement date. | 18,044 | 79,461 |
| Change in deferred outflow - Changes in proportion and differences between employer contributions proportionate share of contributions. | 43,000 | 48,000 |
| Change in deferred outflow - Differences between expected and actual experience. | 7,000 | - |
| Change in deferred inflow - Net difference between projected and actual earnings on pension plan. | 76,000 | (150,000) |
| Change in net pension liability. | (183,000) | 11,000 |
| Changes in net position of governmental activities (page 9) | <u>\$ 690,698</u> | <u>\$ 773,500</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, 2016
With Comparative Figures for 2015

| | Operating Fund | | | | |
|---|--------------------|-------------------|-------------------|---|--------------------|
| | 2016 | | | | 2015 |
| | Original Budget | Final Budget | Actual Amounts | Final Budget/ Actual Variance Positive/ (Negative) | Actual Amounts |
| Revenues: | | | | | |
| Licensing and examination fees | \$ 2,240,597 | \$2,240,597 | \$ 2,378,598 | \$ 138,001 | \$2,263,479 |
| Interest income | - | - | 3,710 | 3,710 | - |
| Monetary penalties | 219,947 | 219,947 | 245,802 | 25,855 | 193,965 |
| Other Revenues | - | - | - | - | 39 |
| Total revenues | <u>2,460,544</u> | <u>2,460,544</u> | <u>2,628,110</u> | <u>167,566</u> | <u>2,457,483</u> |
| Expenditures: | | | | | |
| Licensing, examination and enforcement functions: | | | | | |
| Personal services | 1,159,707 | 1,159,707 | 999,185 | 160,522 | 901,487 |
| Contractual services | 560,577 | 560,577 | 487,145 | 73,432 | 383,358 |
| Supplies and materials | 13,350 | 13,350 | 14,635 | (1,285) | 10,951 |
| Transfer payments | 1,500 | 1,500 | 717 | 783 | 5,087 |
| Continuous charges | 121,174 | 121,174 | 116,287 | 4,887 | 117,661 |
| Equipment purchases | 30,150 | 30,150 | 24,543 | 5,607 | 6,433 |
| Total expenditures | <u>1,886,458</u> | <u>1,886,458</u> | <u>1,642,512</u> | <u>243,946</u> | <u>1,424,977</u> |
| Excess of revenues over expenditures | 574,086 | 574,086 | 985,598 | 411,512 | 1,032,506 |
| Other financing sources/(uses): | | | | | |
| Transfers from/(to) other funds (Note 7) | - | (717,393) | (717,393) | - | (845,570) |
| Transfers to the State General Fund | (4,810) | (4,810) | (4,810) | - | (6,828) |
| Transfers to the State Literary Fund | <u>(219,947)</u> | <u>(219,947)</u> | <u>(245,802)</u> | <u>(25,855)</u> | <u>(193,965)</u> |
| Total other financing sources and uses | <u>(224,757)</u> | <u>(942,150)</u> | <u>(968,005)</u> | <u>(25,855)</u> | <u>(1,046,363)</u> |
| Net change in fund balance | 349,329 | (368,064) | 17,593 | 385,657 | (13,857) |
| Fund balance, July 1 | <u>490,160</u> | <u>490,160</u> | <u>490,160</u> | <u>-</u> | <u>504,017</u> |
| Fund balance, June 30 | <u>\$ 839,489</u> | <u>\$ 122,096</u> | <u>\$ 507,753</u> | <u>\$ 385,657</u> | <u>\$ 490,160</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, continued
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2016
With Comparative Figures for 2015

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 | |
|--|------------------|--------------------|
| | 2016 | 2015 |
| | Actual | Actual |
| | Amounts | Amounts |
| Net change in fund balance (page 14) | \$ 17,593 | \$ (13,857) |
| Accrued revenues on modified accrual basis | 7,996 | (10,291) |
| Accrued expenditures on modified accrual basis | 5,399 | 2,452 |
| Accrued transfers on modified accrual basis | <u>(7,284)</u> | <u>6,691</u> |
| Change in fund balance on modified accrual basis (page 12) | <u>\$ 23,704</u> | <u>\$ (15,005)</u> |

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

NOTES TO FINANCIAL STATEMENTS

THE VIRGINIA BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 and approving 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, 2015, from which the summarized information was derived.

G. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position similar to assets.

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities.

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2016, the amount Due to the State Literary Fund for collections on monetary penalties was \$31,134.

| | <u>June 30, 2016</u> |
|---------------------------------------|----------------------|
| Gross receivables | \$51,538 |
| Less: allowance for doubtful accounts | <u>(18,503)</u> |
| Net Receivables | <u>\$33,035</u> |

5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2016:

| | Balance at June 30, 2015 | Acquired | Deleted | Balance at June 30, 2016 |
|-------------------------------|-----------------------------|--------------------|-------------|-----------------------------|
| Software | \$ 183,388 | \$ - | \$ - | \$ 183,388 |
| Tenant improvements | 101,534 | - | - | 101,534 |
| Equipment | <u>64,237</u> | <u>8,023</u> | <u>-</u> | <u>72,260</u> |
| Total depreciable assets | <u>349,159</u> | <u>8,023</u> | <u>-</u> | <u>357,182</u> |
| Less accumulated depreciation | <u>(172,949)</u> | <u>(42,299)</u> | <u>-</u> | <u>(215,248)</u> |
| Capital assets, net | <u>\$ 176,210</u> | <u>\$ (34,276)</u> | <u>\$ -</u> | <u>\$ 141,934</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.

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, 2016. 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.

| Balance at June 30, 2015 | Increases | Decreases | Balance at June 30, 2016 |
|-----------------------------|-----------------|---------------------------|-----------------------------|
| <u>\$56,984</u> | <u>\$49,553</u> | <u>(\$56,097)</u> | \$50,440 |
| | | Due within one year | <u>(38,519)</u> |
| | | Due in more than one year | <u>\$11,921</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. During FY 2016 the Board transferred a total of \$717,393 into the Trust Account, creating a cash balance on June 30, 2016 of \$2,807,901.

8. LEASE COMMITMENTS

On August 2, 2007, the Board moved its offices to the Perimeter Center Building at 9960 Mayland Drive, Henrico, VA 23233. 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 Perimeter Center Building was sold to a new owner in May of 2014. Effective April 1, 2015, the term of the lease was extended to January 31, 2025 which included a rent reduction and improvements which included an office space expansion for the Board in FY 2015. The rent reduction and 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, 2016, follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> | |
|-----------------------------|-------------------|------------------------------|
| 2017 | \$ 88,613 | |
| 2018 | 90,982 | |
| 2019 | 93,416 | |
| 2020 | 95,918 | |
| 2021 | 98,488 | |
| 2022 | 101,128 | |
| 2023 | 103,842 | |
| 2024 | 106,630 | |
| 2025 | <u>63,445</u> | (Lease expires on 1/31/2025) |
| | <u>\$ 842,462</u> | |

9. DEFINED BENEFIT PENSION PLAN

The Board contributes to the Virginia Retirement System (VRS), an agent, multiple-employer defined benefit pension plan administered by the VRS.

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior

service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out below:

VRS PLAN 1

About VRS Plan 1

VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Eligible Members

Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

Calculating the Benefit

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.

Normal Retirement Age

Age 65.

Earliest Unreduced Retirement Eligibility

Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Earliest Reduced Retirement Eligibility

Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Eligibility

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

Exceptions to COLA Effective Dates

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

About VRS Plan 2

VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Eligible Members

Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

Retirement Contributions

State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.

Creditable Service

Same as VRS Plan 1.

Vesting

Same as VRS Plan 1.

Calculating the Benefit

See definition under VRS Plan 1.

Average Final Compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age

Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility

Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility

Age 60 with at least five years (60 months) of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Eligibility

Same as VRS Plan 1

Exceptions to COLA Effective Dates

Same as VRS Plan 1

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Same as VRS Plan 1.

HYBRID RETIREMENT PLAN**About the Hybrid Retirement Plan**

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)

- The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees*
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014

***Non-Eligible Members**

Some employees are not eligible to participate in the Hybrid Retirement Plan.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Retirement Contributions

A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation

and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Defined Benefit Component:

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

Calculating the Benefit

Defined Benefit Component:

See definition under VRS Plan 1.

Defined Contribution Component:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation

Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Defined Contribution Component:

Not applicable.

Normal Retirement Age

Defined Benefit Component:

Same as VRS Plan 2.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as VRS Plan 2.

Defined Contribution Component:

Not applicable.

Eligibility

Same as VRS Plan 1 and VRS Plan 2.

Exceptions to COLA Effective Dates

Same as VRS Plan 1 and VRS Plan 2.

Disability Coverage

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Defined Benefit Component:

Same as VRS Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After than one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component:

Not applicable.

Contributions

The contributions requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5.00% member contribution and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2016, was 12.33% of covered employee compensation

for employees in the VRS State Employee Retirement Plan for July 2015, 13.28% for August 2015 and 14.22% for September 2015 through June 2016. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rate to 90% of the actuarial rate by September 2015 and for the remainder of FY 2016. Contributions from the Board to the VRS State Employee Retirement Plan were \$97,505 and \$79,461 for the years ended June 30, 2016, and June 30, 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Board reported a liability of \$1,022,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The state agency's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the state agency's proportion of the VRS State Employee Retirement Plan was 0.01669% as compared to 0.01498% at June 30, 2014.

For the year ended June 30, 2016, the state agency recognized pension expense of \$130,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2014, and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Employer contributions made subsequent to measurement date | \$ 97,505 | \$ - |
| Differences between expected and actual experience | 7,000 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 142,000 | - |
| Net difference between projected and actual investment earnings on pension plan investments | - | 74,000 |
| | <u>\$ 246,505</u> | <u>\$ 74,000</u> |

\$97,505 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | | |
|---------------------|----|---------------|
| 2017 | \$ | 37,000 |
| 2018 | | 31,000 |
| 2019 | | (5,000) |
| 2020 | | 12,000 |
| Total | \$ | <u>75,000</u> |

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 5.35% |
| Investment rate of return | 7.0%, net of pension plan investment expenses, Including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2015, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

| | | |
|---|----|-------------------|
| Total Pension Liability | \$ | 22,521,130 |
| Plan Fiduciary Net Position | | <u>16,398,575</u> |
| Employers' Net Pension Liability | \$ | <u>6,122,555</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | | 72.81% |

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|---------------------------|-------------------|--|--|
| U.S. Equity | 19.50% | 6.46% | 1.26% |
| Developed Non U.S. Equity | 16.50% | 6.28% | 1.04% |
| Emerging Market Equity | 6.00% | 10.00% | 0.60% |
| Fixed Income | 15.00% | 0.09% | 0.01% |
| Emerging Debt | 3.00% | 3.51% | 0.11% |
| Rate Sensitive Credit | 4.50% | 3.51% | 0.16% |
| Non Rate Sensitive Credit | 4.50% | 5.00% | 0.23% |
| Convertibles | 3.00% | 4.81% | 0.14% |
| Public Real Estate | 2.25% | 6.12% | 0.14% |
| Private Real Estate | 12.75% | 7.10% | 0.91% |
| Private Equity | 12.00% | 10.41% | 1.25% |
| Cash | 1.00% | -1.50% | -0.02% |
| Total | 100.00% | | 5.83% |
| | | Inflation | 2.50% |
| | | *Expected arithmetic nominal return | 8.33% |

*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the state agency's proportionate share of the VRS State Employee Retirement Plan net pension liability calculated using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|---|----------------------|-----------------------------------|----------------------|
| Board's proportionate share of the VRS State Employee Retirement Plan net pension liability | \$1,468,000 | \$1,022,000 | \$648,000 |

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

10. OTHER POST RETIREMENT BENEFITS

The Virginia Retirement System administers life insurance and health related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR).

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.

REQUIRED SUPPLEMENTARY INFORMATION

Virginia Board of Accountancy
Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan

| Year Ended June 30,* | 2016 | 2015 |
|---|-------------|-------------|
| Employer's proportion of the net pension liability | 0.01669% | 0.01498% |
| Employer's proportionate share of the net pension liability | \$1,022,000 | \$839,000 |
| Employer's covered payroll | \$644,621 | \$578,909 |
| Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 158.54% | 144.93% |
| Plan fiduciary net position as a percentage of the total pension liability | 72.81% | 74.28% |

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date as of the previous fiscal year end.

Virginia Board of Accountancy
Schedule of Employer Contributions
VRS State Employee Retirement Plan

| Year Ended June 30, | 2016 | 2015 |
|--|-------------|-------------|
| Contractually required contribution | \$ 97,505 | \$ 79,482 |
| Contributions in relation to the contractually required contribution | 97,505 | 79,461 |
| Contribution deficiency (excess) | \$ - | \$ 21 |
| Employer's covered payroll | \$ 695,362 | \$ 644,621 |
| Contributions as a percentage covered payroll | 14.02% | 12.33% |

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

Virginia Board of Accountancy

Notes to Required Supplementary Information

Year Ended June 30, 2016

Changes of benefit terms

There have been no actuarial material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions

The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

VIRGINIA BOARD OF ACCOUNTANCY

BOARD MEMBERSHIP

As of June 30, 2016

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.

Stephanie S. Saunders, CPA
Chair

Marc B. Moyers, CPA
Vice Chair

| | |
|----------------------------------|-----------------------------|
| Matthew P. Bosher, Esq. | D. Brian Carson, CPA |
| Susan Quaintance Ferguson, CPA | James M. “Jim” Holland, CPA |
| Andrea M. Kilmer, CPA, CFF, CGMA | |



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 16, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrrock, Sr.
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, 2016, 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 opinions.

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, 2016, and the respective changes in financial position 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

Relationship to the Commonwealth of Virginia

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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the Board in our report dated June 07, 2016. In our opinion, the summarized comparative information presented herein as of and for

the year ended June 30, 2015, 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, Schedule of Employer's Share of Net Pension Liability on page 34, Schedule of Employer Contributions on page 35, and Notes to Required Supplementary Information on page 36 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 May 16, 2017 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.



AUDITOR OF PUBLIC ACCOUNTS

KJS/clj