

**THE VIRGINIA
BOARD OF ACCOUNTANCY**

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2012

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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, 2012.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$453,842 (net assets), a decrease of \$159,869 in comparison with the prior year. Of this amount, \$311,731 represents unrestricted net assets, 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 \$340,517, a decrease of \$141,768 in comparison with the prior year. The committed portion of the fund balance is \$338,186 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 \$132,353, or approximately 12.5 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 \$208,164.

The Board's operating expenses and mandatory transfers exceeded its licensing and examination fees for the sixth year in a row creating a revenue shortfall. During the current fiscal year the Board transferred \$206,000 from the Trust Account into the Operating Fund to ensure funds were available to meet expenditures. The Board has actively worked to minimize costs through the creation of operating efficiencies and increased automation. However, the costs of inflation and recent shifts in expenditure patterns have outpaced the Board's ability to control costs solely through operating efficiencies.

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 is 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.

Overview of the Financial Statements

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

Entity-Wide Financial Statements

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

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

The Statement of Activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (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 assets may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets exceeded liabilities by \$453,842 at the close of the most recent fiscal year.

By far the largest portion of the Board's net assets (69 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations. The remaining 31 percent of the Board's net assets reflects its 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.

	<u>Net Assets</u>	
	<u>2012</u>	<u>2011</u>
Current assets	\$ 420,862	\$ 558,481
Capital assets	<u>142,111</u>	<u>163,688</u>
Total assets	<u>562,973</u>	<u>722,169</u>
Current liabilities	80,345	76,196
Long-term liabilities	<u>28,786</u>	<u>32,262</u>
Total liabilities	<u>109,131</u>	<u>108,458</u>
Net assets:		
Invested in capital assets	142,111	163,688
Unrestricted	<u>311,731</u>	<u>450,023</u>
Total net assets	<u>\$ 453,842</u>	<u>\$ 613,711</u>

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

The Board's net assets decreased by \$159,869 during the current fiscal year. This decrease represents the degree to which operating expenses exceeded licensing and examination fees. Key elements of this change are as follows:

Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Program revenues:		
Charges for services	\$ 935,341	\$ 929,900
General revenues:		
Miscellaneous revenue	-	-
Monetary penalties	<u>67,611</u>	<u>59,014</u>
Total revenues	<u>1,002,952</u>	<u>988,914</u>
Licensing and enforcement expenses	<u>1,074,910</u>	<u>1,025,882</u>
Increase (decrease) in net assets before transfers	(71,958)	(36,968)
Transfers/(net)	<u>(87,911)</u>	<u>(79,321)</u>
Increase (decrease) in net assets:	(159,869)	(116,289)
Net assets - July 1	<u>613,711</u>	<u>730,000</u>
Net assets - June 30	<u>\$ 453,842</u>	<u>\$ 613,711</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

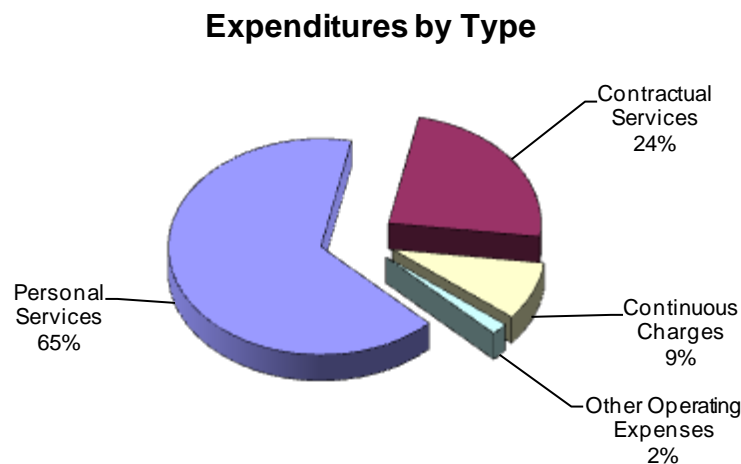
At the end of the current fiscal year, the Board's special revenue funds reported combined ending fund balances of \$340,517. The committed portion of the ending fund balances is \$338,186, meaning it is available for spending at the Board's discretion.

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 \$132,353. 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 12.5 percent of total expenditures.

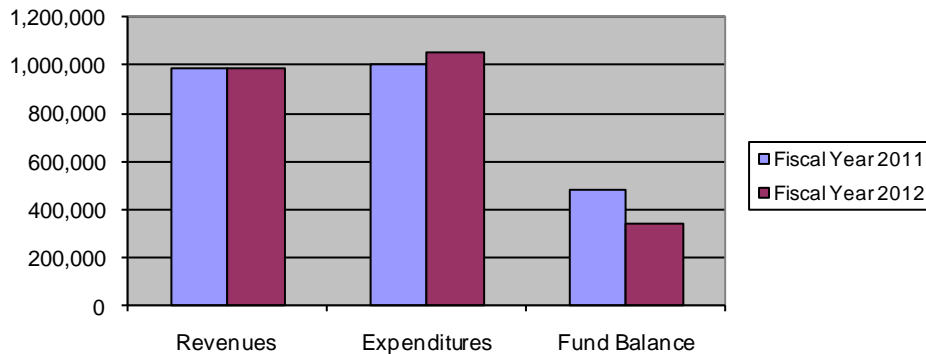
The fund balance of the Board's Operating Fund increased by \$64,232 during the current fiscal year. Key factors affecting the change in fund balance are as follows:

- The Board transferred \$206,000 from the Trust Account into the Operating Fund.
- Revenues from licensing and examination fees have increased slightly by \$5,441 (0.6%) over the previous year.
- Personal services expenses increased by \$109,661 (19%). The Board initiated an internal reorganization during fiscal year 2011 which created two new full-time classified positions during December 2010 and February 2011; however, during fiscal year 2011, this additional expense was offset by the decrease in Workforce Transaction Act expense incurred in the previous year due to elimination of one full-time position. During the current fiscal year, the additional expense for these two new positions was fully realized.
- Continuous charges increased by \$3,734 (4%) primarily related to increases in lease payments for equipment and building rentals and costs for services provided to the Board by other Commonwealth of Virginia agencies.
- Contractual services expenses decreased by \$44,577 (15%) primarily related to a decrease in information technology related charges from the removal of an obsolete server and one-time costs related to the reconfiguration of existing office space that occurred during the previous year.
- Equipment expenses decreased by \$14,703 (74%) primarily related to one-time costs related to the reconfiguration of existing office space that occurred during the previous year.

At the end of the current fiscal year, the total fund balance of the Trust Account was \$208,164. The Board transferred \$206,000 from the Trust Account into the Operating Fund to ensure funds were available to meet expenditures. Beginning with fiscal year 2011, the State Comptroller did not allocate any interest earnings to the Board per section 3-3.03 of the 2011 Virginia Acts of Assembly, Chapter 890.



**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 \$1,231,905 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. While actual expenditures were less than budgetary estimates, the Board processed a cash transfer to move \$206,000 from the Trust Account into the Operating Fund to ensure funds were available to meet expenditures.

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 is 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 investment in capital assets at June 30, 2012, amounts to \$142,111 (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 been stabilizing over the last four years and was not expected to change significantly.

	<u>CPA License Holders</u>	
	<u>At June 30, 2012</u>	<u>At June 30, 2011</u>
Individuals	24,936	24,147
Firms	<u>1,218</u>	<u>1,194</u>
Total	<u>26,154</u>	<u>25,341</u>

While payments for information technology maintenance decreased during the current fiscal year due to reducing costs for an obsolete server, payments for systems maintenance is expected to increase in the coming year. These payments are non-discretionary and the Board has no ability to affect the amounts billed for these services. Other expenditures, including personnel, are also expected to increase during the next fiscal year. As a result, total budgeted expenditures are expected to increase. All of these factors were considered in preparing the Board's budget for the fiscal year ending June 30, 2013.

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 is 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.

FINANCIAL STATEMENTS

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF NET ASSETS
As of June 30, 2012
With Comparative Figures for 2011

	Governmental Activities	
	2012	2011
Assets:		
Cash held by the Treasurer of Virginia (Note 3)	\$ 399,781	\$ 542,667
Accounts receivable (Note 4)	18,750	13,500
Prepaid items (Note 1E)	2,331	2,314
Capital assets, net of accumulated depreciation (Note 5)	<u>142,111</u>	<u>163,688</u>
Total Assets	<u>562,973</u>	<u>722,169</u>
Liabilities:		
Accounts payable	15,363	13,632
Accrued salaries payable	46,232	49,064
Due to the State Literary Fund (Note 4)	18,750	13,500
Compensated absences payable (Note 6)	<u>28,786</u>	<u>32,262</u>
Total Liabilities	<u>109,131</u>	<u>108,458</u>
Net Assets:		
Invested in capital assets (Note 5)	142,111	163,688
Unrestricted	<u>311,731</u>	<u>450,023</u>
Total Net Assets	<u>\$ 453,842</u>	<u>\$ 613,711</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, 2012
With Comparative Figures for 2011

	Governmental Activities			
	2012		2011	
	Program Revenues Charges for Expenses	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets	
<u>Functions/programs:</u>				
Governmental activities				
Licensing, examination and enforcement functions	<u>\$ 1,074,910</u>	<u>\$ 935,341</u>	<u>\$ (139,569)</u>	<u>\$ (95,982)</u>
General revenues:				
Miscellaneous revenue		-	-	-
Monetary penalties		67,611	59,014	
Transfers:				
Transfers to the State General Fund		(20,300)	(20,307)	
Transfers to the State Literary Fund		(67,611)	(59,014)	
		<u>(20,300)</u>	<u>(20,307)</u>	
Total general revenues and transfers		<u>(20,300)</u>	<u>(20,307)</u>	
Changes in net assets		(159,869)	(116,289)	
Net assets, July 1		<u>613,711</u>	<u>730,000</u>	
Net assets, June 30		<u>\$ 453,842</u>	<u>\$ 613,711</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, 2012
With Comparative Figures for 2011

	Special Revenue Funds			
	Operating Fund	Trust Account	Total	
			2012	2011
Assets:				
Cash held by the Treasurer of Virginia (Note 3)	\$ 191,617	\$ 208,164	\$ 399,781	\$ 542,667
Accounts receivable (Note 4)	18,750	-	18,750	13,500
Prepaid items (Note 1E)	2,331	-	2,331	2,314
Total assets	212,698	208,164	420,862	558,481
Liabilities and fund balance:				
Liabilities:				
Accounts payable	\$ 15,363	\$ -	\$ 15,363	\$ 13,632
Accrued salaries payable	46,232	-	46,232	49,064
Due to the State Literary Fund (Note 4)	4,500	-	4,500	8,500
Deferred revenue	14,250	-	14,250	5,000
Total liabilities	80,345	-	80,345	76,196
Fund balance:				
Nonspendable:				
Prepaid insurance	2,331	-	2,331	2,314
Committed for:				
Board operations	130,022	208,164	338,186	479,971
Total fund balance	132,353	208,164	340,517	482,285
Total liabilities and fund balance	\$ 212,698	\$ 208,164	\$ 420,862	\$ 558,481
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Total fund balance (per above)			340,517	482,285
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds. (Note 5)			142,111	163,688
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)			(28,786)	(32,262)
Net assets of governmental activities (page 8)			\$ 453,842	\$ 613,711

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, 2012
With Comparative Figures for 2011

	Special Revenue Funds			
	Operating Fund	Trust Account	Total	
			2012	2011
Revenues:				
Licensing and examination fees	\$ 935,341	\$ -	\$ 935,341	\$ 929,900
Miscellaneous revenue	-	-	-	-
Monetary penalties	53,361	-	53,361	54,014
Total revenues	988,702	-	988,702	983,914
Expenditures:				
Licensing, examination and enforcement functions:				
Personal services	694,317	-	694,317	584,656
Contractual services	251,703	-	251,703	296,280
Supplies and materials	9,093	-	9,093	9,758
Transfer payments	4,028	-	4,028	1,090
Continuous charges	92,370	-	92,370	88,636
Equipment purchases	5,298	-	5,298	20,001
Total expenditures	1,056,809	-	1,056,809	1,000,421
Excess/(deficiency) of revenues over expenditures	(68,107)	-	(68,107)	(16,507)
Other financing sources/(uses):				
Transfers to/from other funds (Note 7)	206,000	(206,000)	-	-
Transfers to the State General Fund	(20,300)	-	(20,300)	(20,307)
Transfers to the State Literary Fund	(53,361)	-	(53,361)	(54,014)
Total other financing sources and uses	132,339	(206,000)	(73,661)	(74,321)
Net change in fund balance	64,232	(206,000)	(141,768)	(90,828)
Fund balance, July 1	68,121	414,164	482,285	573,113
Fund balance, June 30	\$ 132,353	\$ 208,164	\$ 340,517	\$ 482,285

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, continued
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012
With Comparative Figures for 2011

	<u>Special Revenue Funds</u>	
	<u>Total</u>	
	<u>2012</u>	<u>2011</u>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balance (page 11)	(141,768)	(90,828)
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.	(21,577)	(5,938)
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>3,476</u>	<u>(19,523)</u>
Changes in net assets of governmental activities (page 9)	<u>\$ (159,869)</u>	<u>\$ (116,289)</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, 2012
With Comparative Figures for 2011

	Operating Fund				
	2012			2011	
	Original Budget	Final Budget	Actual Amounts	Final Budget/ Actual Variance Positive/ (Negative)	Actual Amounts
Revenues:					
Licensing and examination fees	\$ 879,549	\$ 879,549	\$ 935,341	\$ 55,792	\$ 929,900
Monetary penalties	75,000	75,000	57,361	(17,639)	46,814
Miscellaneous revenue	-	-	-	-	-
Total revenues	<u>954,549</u>	<u>954,549</u>	<u>992,702</u>	<u>38,153</u>	<u>976,714</u>
Expenditures:					
Licensing, examination and enforcement functions:					
Personal services	696,621	696,621	697,149	(528)	571,941
Contractual services	398,539	398,539	249,966	148,573	287,106
Supplies and materials	14,500	14,500	9,093	5,407	9,758
Transfer payments	-	-	4,028	(4,028)	1,090
Continuous charges	116,895	116,895	92,393	24,502	88,920
Equipment purchases	5,350	5,350	5,298	52	20,001
Total expenditures	<u>1,231,905</u>	<u>1,231,905</u>	<u>1,057,927</u>	<u>173,978</u>	<u>978,816</u>
Excess/(deficiency) of revenues over expenditures	(277,356)	(277,356)	(65,225)	212,131	(2,102)
Other financing sources/(uses):					
Transfers from/(to) other funds (Note 7)	-	206,000	206,000	-	-
Transfers to the State General Fund	(20,307)	(20,300)	(20,300)	-	(20,307)
Transfers to the State Literary Fund	(75,000)	(75,000)	(57,361)	17,639	(46,814)
Total other financing sources and uses	<u>(95,307)</u>	<u>110,700</u>	<u>128,339</u>	<u>17,639</u>	<u>(67,121)</u>
Net change in fund balance	(372,663)	(166,656)	63,114	229,770	(69,223)
Fund balance, July 1	<u>128,503</u>	<u>128,503</u>	<u>128,503</u>	-	<u>197,726</u>
Fund balance, June 30	<u>\$ (244,160)</u>	<u>\$ (38,153)</u>	<u>\$ 191,617</u>	<u>\$ 229,770</u>	<u>\$ 128,503</u>

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, 2012
With Comparative Figures for 2011

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:

	<u>Operating Fund</u>	
	<u>2012</u>	<u>2011</u>
	Actual	Actual
	<u>Amounts</u>	<u>Amounts</u>
Net change in fund balance (page 13)	63,114	(69,223)
Accrued revenues on modified accrual basis	(4,000)	7,200
Accrued expenditures on modified accrual basis	1,118	(21,605)
Accrued transfers on modified accrual basis	<u>4,000</u>	<u>(7,200)</u>
Change in fund balance on modified accrual basis (page 11)	<u>\$ 64,232</u>	<u>\$ (90,828)</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, 2012

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 Assets and the Statement of Activities) report information on all of the Board's financial activities. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to 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. All fees are recognized as revenue when received.

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. 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. 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.

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, 2011, 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 from regulants and non-regulants found guilty of violating the Board's statutes or regulations. The proceeds from these penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. Consequently, receivables are offset by a corresponding amount Due to the State Literary Fund and are not available to meet the Board's current operating needs. At June 30, 2012, the amount Due to the State Literary Fund for collections on monetary penalties was \$18,750.

	<u>June 30, 2012</u>
Gross receivables	\$31,250
Less: allowance for doubtful accounts	<u>12,500</u>
Net Receivables	<u>\$18,750</u>

5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2012:

	<u>Balance at June 30, 2011</u>	<u>Acquired</u>	<u>Deleted</u>	<u>Balance at June 30, 2012</u>
Software	\$ 183,388	\$ -	\$ -	\$ 183,388
Tenant improvements	32,383	-	-	32,383
Total depreciable assets	<u>215,771</u>	<u>-</u>	<u>-</u>	<u>215,771</u>
Less accumulated depreciation	<u>(52,083)</u>	<u>(21,577)</u>	<u>-</u>	<u>(73,660)</u>
Capital assets, net	<u>\$ 163,688</u>	<u>\$ (21,577)</u>	<u>\$ -</u>	<u>\$ 142,111</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 Assets represent the amounts of vacation, sick, and compensatory leave earned by the Board’s employees but not taken at June 30, 2012. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth’s leave payout policies. Information on the Commonwealth’s leave payout policies is available at the statewide level in the Commonwealth’s Comprehensive Annual Financial Report.

<u>Balance at</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2012</u>
<u>\$32,262</u>	<u>\$30,298</u>	<u>\$(33,774)</u>	<u>\$28,786</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. On December 21, 2011, the Board transferred \$206,000 from the Trust Account to the Operating Fund to provide needed cash for ongoing expenditures.

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. Total rental expense for the fiscal year ended June 30, 2012, was \$56,575.

A summary of future obligations under the Board’s lease agreement as of June 30, 2012, follows.

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	52,630
2014	60,277
2015	61,934
2016	63,637
2017	65,387
2018	<u>50,352</u>
	<u>\$ 354,217</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, 2012

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 citizen member. The Governor appoints each member to a term of four years and no member may serve more than two consecutive terms.

Lawrence D. Samuel, CPA
Chairman

Tyrone E. Dickerson, CPA
Vice Chairman

W. Barclay Bradshaw, CPA

Regina P. Brayboy, MPA, MBA

Dian T. Calderone, MTX, CPA

Robert J. Cochran, Ph.D., CPA

Andrea M. Kilmer, CPA, CFF, CGMA



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredas, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 25, 2013

The Honorable Robert F. McDonnell
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 ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the governmental activities and the major funds of the **Virginia Board of Accountancy** (Board) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Board's 2011 financial statements, and in our report dated March 12, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities and the major funds.

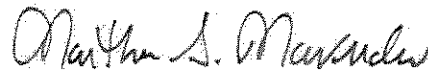
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and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

As discussed in Note 1A, the basic financial statements of the Board are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in its financial position thereof, and the respective budgetary comparison for the operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management 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 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.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2013, 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 and should be considered in assessing the results of our audit.



AUDITOR OF PUBLIC ACCOUNTS

AVG/cj