

**NORTH CAROLINA STATE BOARD
OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Board Members

BOARD MEMBERS

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Wm. Hunter Cook, CPA, Vice-President

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OUTSIDE LEGAL COUNSEL

Allen & Pinnix, P.A.

Noel L. Allen, Esquire

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Table of Contents

| | <u>Page No.</u> |
|---|-----------------|
| Management's Discussion and Analysis | 1 - 5 |
| Independent Auditor's Report | 6 - 7 |
| <i>Financial Statements</i> | |
| Statements of Net Position | 8 |
| Statements of Revenues, Expenses, and Changes in Net Position | 9 |
| Statements of Cash Flows | 10 |
| Notes to Financial Statements | 11 - 18 |
| <i>Supplementary Information</i> | |
| Schedules of Budget and Actual - Revenues, Expenses, and Changes in Net Position | 19 |

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Management's Discussion and Analysis**

Introduction

The following discussion and analysis provides an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. This overview includes a comparative financial analysis with discussion of significant changes from the prior year, as well as a discussion of currently known facts, decisions, and conditions. This information is provided by the North Carolina State Board of Certified Public Accountant Examiners' (Board) management in conjunction with the issuance of the accompanying financial statements.

Overview of the Basic Financial Statements

The Statements of Net Position provide information relative to the Board's assets, liabilities, and the resulting net position as of the last day of the fiscal year. Assets and liabilities on these statements are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. The Board currently has no elements that meet the definition of deferred inflows or deferred outflows. Net position on these statements is categorized as either invested in capital assets or unrestricted. Overall, the Statements of Net Position provide information relative to the financial strength of the Board and its ability to meet current and long-term obligations.

The Statements of Revenues, Expenses, and Changes in Net Position provide information relative to the results of the Board's operations, non-operating activities, and other activities affecting net position that occurred during the fiscal year. Operating activities include the licensure and examination activities for the public practice of accountancy in the State. Non-operating activities include primarily investment income and office rental activities for a portion of the Board-owned building. Overall, the Statements of Revenues, Expenses, and Changes in Net Position provide information relative to the Board's management of its operations and its ability to maintain its financial strength. The above statements are articulated by agreeing the ending net position reported on both statements.

The Statements of Cash Flows provide information relative to the Board's sources and uses of cash funds for operating activities, capital financing activities, and investing activities. These statements provide a reconciliation of beginning cash balances to ending cash balances and are representative of activity reported on the Statements of Revenues, Expenses, and Changes in Net Position as adjusted for changes in beginning and ending balances of noncash accounts on the Statements of Net Position.

The three statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with GASB, the financial statements are presented on the Board as a whole and use reporting concepts in a manner similar to that required of a business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balances.

In using the basic financial statements, the Notes to the Financial Statements should be read in conjunction with the basic financial statements. The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the basic financial statements, authority for and associated risk of deposits and investments, detailed information on capital assets and noncurrent liabilities, revenues and expenses, required information on pension plans, insurance against losses, commitments and contingencies, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the Board's financial statement period. Overall, the Notes to the Financial Statements provide information to better understand details, risks, and uncertainties associated with amounts reported in the basic financial statements.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Management's Discussion and Analysis

Brief Agency Highlights

The Board is an occupational licensing board that grants certificates of qualification as certified public accountants (CPAs) to those individuals who meet the statutory requirements. The Board also adopts and enforces the Rules of Professional Ethics and Conduct to be observed by CPAs in this State. Other functions of the Board include registration of CPA firms; renewal of CPA certificates and CPA firm registrations; administration of the Uniform CPA Examination; disposition of administrative hearings with respect to State statutes and rules; and administration of other provisions of Chapter 93 of the *North Carolina General Statutes*.

Analysis of Financial Position and Results of Operations

The Board's net position as of March 31, 2016 and March 31, 2015, was approximately \$2.73 million and \$2.54 million, respectively, an increase of approximately \$190,000 during the year. *(With the exception of the dollar and percentage amounts detailed in the following tables, all other dollar amounts have been rounded/approximated for presentation purposes.)*

Condensed Financial Information

The following table summarizes the Board's assets, liabilities and net position as of March 31, 2016, 2015 and 2014.

| Condensed Statements of Net Position | | | | | | |
|--------------------------------------|--------------|--------------|----------|--------------|--------------|----------|
| | 2016 | 2015 | % Change | 2015 | 2014 | % Change |
| Assets: | | | | | | |
| Current assets | \$ 2,366,890 | \$ 1,719,498 | 37.65% | \$ 1,719,498 | \$ 1,968,146 | -12.63% |
| Noncurrent assets | 245,800 | 492,729 | -50.11% | 492,729 | - | 100.00% |
| Capital assets, net | 884,195 | 911,009 | -2.94% | 911,009 | 954,524 | -4.56% |
| Total assets | 3,496,885 | 3,123,236 | 11.96% | 3,123,236 | 2,922,670 | 6.86% |
| Liabilities: | | | | | | |
| Current liabilities | 699,749 | 514,283 | 36.06% | 514,283 | 420,011 | 22.45% |
| Noncurrent liabilities | 72,106 | 73,432 | -1.81% | 73,432 | 72,149 | 1.78% |
| Total liabilities | 771,855 | 587,715 | 31.33% | 587,715 | 492,160 | 19.42% |
| Net Position: | | | | | | |
| Invested in capital assets | 884,195 | 911,009 | -2.94% | 911,009 | 954,524 | -4.56% |
| Unrestricted | 1,840,835 | 1,624,512 | 13.32% | 1,624,512 | 1,475,986 | 10.06% |
| Total net position | \$ 2,725,030 | \$ 2,535,521 | 7.47% | \$ 2,535,521 | \$ 2,430,510 | 4.32% |

Current Assets

Current assets as of March 31, 2016, consisted primarily of cash, \$1,117,000, investments, \$1,245,000, and receivables, \$5,000. Current assets as of March 31, 2015, consisted primarily of cash, \$517,000, investments, \$1,196,000, and receivables, \$6,000.

Current assets increased during the fiscal year March 31, 2016, due to the increase in cash and short-term certificates of deposit as the Board invested more funds in money market accounts and short-term certificates of deposit as interest rates on longer term maturities were not significant.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Management's Discussion and Analysis**

Noncurrent and Capital Assets

Noncurrent assets as of March 31, 2016, consisted of investments, \$246,000, and capital assets totaling \$884,000. Noncurrent assets as of March 31, 2015, consisted of investments, \$493,000, and capital assets totaling \$911,000.

Noncurrent assets decreased during the fiscal year March 31, 2016 due to the Board's investment in certificates of deposit with shorter term maturity periods resulting in a reduction of \$247,000 as well as the expected depreciation expense related to capital assets.

Liabilities

Current liabilities as of March 31, 2016, consisted primarily of accounts payable, \$24,000, due to examination vendors, \$516,000, unearned revenue, \$153,000, and accrued compensated absences, \$7,000. Current liabilities as of March 31, 2015, consisted primarily of accounts payable, \$38,000, due to examination vendors, \$445,000, unearned revenue, \$27,000 and accrued compensated absences, \$5,000. The net increase in current liabilities is primarily due to a \$71,000 increase in the amount due to examination vendors related to a greater number of candidates sitting for the exam and a \$126,000 increase in unearned revenue as a significant number of licensees renewed their license the last week of March prior to the beginning of the new fiscal year.

Noncurrent liabilities consisted entirely of accrued compensated absences in the amount of \$72,000 and \$73,000 as of March 31, 2016 and 2015, respectively. The minor decrease during the current year properly reflects a shorter term projected payout of employee earned annual leave balances for the upcoming year.

Net Position

The Board's net position consists of net assets invested in capital assets and unrestricted net assets. Net assets invested in capital assets were \$884,000 and \$911,000 as of March 31, 2016 and 2015, respectively. Unrestricted net assets of \$1.84 and \$1.62 million as of March 31, 2016 and 2015, respectively, represent amounts not subject to externally imposed stipulations, but subject to internal designations for various activities and initiatives.

For the year ended March 31, 2016, the increase in net position of approximately \$190,000 is attributable to a combination of increased revenue from candidates taking the uniform CPA exam and higher certificate fee revenue from an increased number of licensed certificate holders in the State.

The Statements of Revenues, Expenses, and Changes in Net Position present the results of the Board's operations for the report period. The following table summarizes the Board's revenues, expenses, and changes in net position for the years ended March 31, 2016, 2015 and 2014.

| Condensed Statements of Revenues, Expenses, and Changes in Net Position For the Fiscal Years Ended March 31, | | | | | | |
|---|--------------|--------------|----------|--------------|--------------|----------|
| | 2016 | 2015 | % Change | 2015 | 2014 | % Change |
| Operating revenues: | | | | | | |
| Exam fees | \$ 1,518,280 | \$ 1,435,724 | 5.75% | \$ 1,435,724 | \$ 1,292,925 | 11.04% |
| Certificate fees | 1,393,670 | 1,360,270 | 2.46% | 1,360,270 | 1,331,320 | 2.17% |
| Miscellaneous | 19,697 | 12,348 | 59.52% | 12,348 | 9,248 | 33.52% |
| Operating expenses | (2,768,561) | (2,733,238) | 1.29% | (2,733,238) | (2,557,971) | 6.85% |
| Operating income | 163,086 | 75,104 | 117.15% | 75,104 | 75,522 | -0.55% |

(Table continued on next page.)

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Management's Discussion and Analysis**

(Table continued from previous page.)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended March 31,

| | 2016 | 2015 | % Change | 2015 | 2014 | % Change |
|--------------------------------|---------------------|---------------------|----------|---------------------|---------------------|----------|
| Non-operating revenues | \$ 41,377 | \$ 47,673 | -13.21% | \$ 47,673 | \$ 50,728 | -6.02% |
| Non-operating expenses | (14,954) | (17,766) | -15.83% | (17,766) | (15,386) | 15.47% |
| | 26,423 | 29,907 | -11.65% | 29,907 | 35,342 | -15.38% |
| Increase in net position | 189,509 | 105,011 | 80.47% | 105,011 | 110,864 | -5.28% |
| Net position beginning of year | 2,535,521 | 2,430,510 | 4.32% | 2,430,510 | 2,319,646 | 4.78% |
| Net position end of year | \$ 2,725,030 | \$ 2,535,521 | 7.47% | \$ 2,535,521 | \$ 2,430,510 | 4.32% |

Operating Revenues

For the fiscal year ended March 31, 2016, operating revenues totaled \$2.93 million, consisting primarily of exam fee revenue of \$1.52 million and licensing fee revenues of \$1.39 million. For the fiscal year ended March 31, 2015, operating revenues totaled \$2.81 million, consisting primarily of exam fee revenue of \$1.44 million and licensing fee revenues of \$1.36 million. Exam fee revenue increased due to an increase in the number of exam sections that were taken by candidates. Licensing revenue increased due to an increased number of licensees in the State.

Non-Operating Revenues

For the fiscal year ended March 31, 2016, non-operating revenues totaled \$41,000, primarily from interest income of \$19,000 and rental income of \$22,000. For the fiscal year ended March 31, 2015, non-operating revenues totaled \$48,000, primarily from interest income of \$15,000 and rental income of \$32,000. The significant change in non-operating revenue activity is related to a decrease in rental income as the Board's tenant terminated its lease agreement during the fiscal year.

The following table summarizes the Board's expenses (operating and non-operating) for the years ended March 31, 2016, 2015 and 2014.

Operating and Non-Operating Expenses
For the Fiscal Years Ended March 31,

| | 2016 | 2015 | % Change | 2015 | 2014 | % Change |
|--------------------------------|---------------------|---------------------|----------|---------------------|---------------------|----------|
| Operating expenses: | | | | | | |
| Salaries and employee benefits | \$ 1,159,649 | \$ 1,202,336 | -3.55% | \$ 1,202,336 | \$ 1,189,002 | 1.12% |
| Examination | 1,019,993 | 977,226 | 4.38% | 977,226 | 857,776 | 13.93% |
| Office expenses | 440,477 | 401,927 | 9.59% | 401,927 | 390,646 | 2.89% |
| Depreciation | 38,197 | 44,430 | -14.03% | 44,430 | 50,424 | -11.89% |
| Other expenses | 110,245 | 107,319 | 2.73% | 107,319 | 70,123 | 53.04% |
| Total operating expenses | \$ 2,768,561 | \$ 2,733,238 | 1.29% | \$ 2,733,238 | \$ 2,557,971 | 6.85% |
| Non-operating expenses | \$ 14,954 | \$ 17,766 | -15.83% | \$ 17,766 | \$ 15,386 | 15.47% |

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Management's Discussion and Analysis**

For the fiscal year ended March 31, 2016, salary and employee benefits expenses decreased by \$42,000 due to lower staff costs related to a staff retirement. Examination costs increased by \$43,000 as a greater number of candidates sat for the exam during the year. Office expenses increased due to rising costs related to the printing and mailing of the monthly newsletter as well as higher hearing and legal costs related to Board actions during the year. Depreciation expense decreased as assets are expensed in accordance with their useful lives. Other costs remained consistent from the prior year.

Economic Factors That Will Affect the Future

The main factors impacting the economic outlook for the Board are the number of candidates seeking to sit for the Uniform Certified Public Accountants examination and the number of licensees registered with the State.

The Board derives 99% of its revenues from examination and licensing fees. Exam revenues increased the past two years after declining slightly over the previous two years. The Board anticipates an increased number of examination sections to be taken by examination candidates for the next fiscal year due to the proposed changes to the Uniform CPA Exam scheduled to take place in 2017. Licensing fees have shown a minor increase as the number of active licensees in North Carolina has increased; however, some of that increase is tempered by retirements and licensees being granted inactive status. The Certified Public Accountant credential is highly regarded in the business world and the Board expects candidates to continue to seek licensure for the foreseeable future.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives and expends. If you have any questions about this report or need additional information, contact:

North Carolina State Board of Certified Public Accountant Examiners
Post Office Box 12827
Raleigh, North Carolina 27605-2827

Independent Auditor's Report

Members of the Board

North Carolina State Board of Certified Public Accountant Examiners

Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Board of Certified Public Accountant Examiners (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of March 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the basic 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 Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Board of Certified Public Accountant Examiners as of March 31, 2016 and 2015, and its changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements are presented only for the North Carolina State Board of Certified Public Accountant Examiners and do not purport to and do not present fairly the financial position of the State of North Carolina as of March 31, 2016 and 2015, nor the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 5, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of budget and actual - revenues, expenses, and changes in net position, on page 19, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
July 15, 2016

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Statements of Net Position
March 31, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash | \$ 1,116,941 | \$ 517,150 |
| Short-term investments | 1,245,449 | 1,195,970 |
| Accounts receivable | 4,500 | 6,378 |
| Total current assets | <u>2,366,890</u> | <u>1,719,498</u> |
| Noncurrent assets: | | |
| Investments | 245,800 | 492,729 |
| Capital assets, non-depreciable (Note 3) | 300,000 | 300,000 |
| Capital assets, depreciable, net (Note 3) | 584,195 | 611,009 |
| Total noncurrent assets | <u>1,129,995</u> | <u>1,403,738</u> |
| Total assets | <u>3,496,885</u> | <u>3,123,236</u> |
| LIABILITIES: | | |
| Current liabilities: | | |
| Accounts payable | 23,510 | 37,927 |
| Due to examination vendors | 516,267 | 445,085 |
| Unearned revenue | 152,640 | 26,700 |
| Compensated absences - current portion | 7,332 | 4,571 |
| Total current liabilities | <u>699,749</u> | <u>514,283</u> |
| Noncurrent liabilities: | | |
| Compensated absences (Note 5) | 72,106 | 73,432 |
| Total noncurrent liabilities | <u>72,106</u> | <u>73,432</u> |
| Total liabilities | <u>771,855</u> | <u>587,715</u> |
| NET POSITION: | | |
| Net investment in capital assets | 884,195 | 911,009 |
| Unrestricted | 1,840,835 | 1,624,512 |
| Total net position | <u>\$ 2,725,030</u> | <u>\$ 2,535,521</u> |

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended March 31, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|--------------|
| Operating revenues: | | |
| Examination fees | \$ 1,518,280 | \$ 1,435,724 |
| Licensing fees | 1,393,670 | 1,360,270 |
| Miscellaneous | 19,697 | 12,348 |
| Total operating revenues | 2,931,647 | 2,808,342 |
| Operating expenses: | | |
| Salaries and employee benefits | 1,159,649 | 1,202,336 |
| Examination | 1,019,993 | 977,226 |
| Office expenses | 95,238 | 96,534 |
| Postage and printing | 172,938 | 159,546 |
| Travel | 95,669 | 96,369 |
| Maintenance and computer support | 76,632 | 49,478 |
| Depreciation | 38,197 | 44,430 |
| Legal and investigative costs | 52,502 | 36,511 |
| Insurance | 19,445 | 17,760 |
| Dues and subscriptions | 9,473 | 12,511 |
| Scholarships | 5,500 | 12,000 |
| Building | 23,325 | 28,537 |
| Total operating expenses | 2,768,561 | 2,733,238 |
| Operating income | 163,086 | 75,104 |
| Non-operating revenues (expenses): | | |
| Interest income | 19,521 | 15,477 |
| Rental income | 21,856 | 32,146 |
| Rental building expenses | (14,954) | (17,766) |
| Gain on the sale of equipment | - | 50 |
| Total non-operating revenues (expenses) | 26,423 | 29,907 |
| Changes in net position | 189,509 | 105,011 |
| Net position - beginning of year | 2,535,521 | 2,430,510 |
| Net position - end of year | \$ 2,725,030 | \$ 2,535,521 |

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Statements of Cash Flows
Years Ended March 31, 2016 and 2015**

| | 2016 | 2015 |
|--|---------------------|--------------|
| Cash flows from operating activities: | | |
| Cash received from fees | \$ 3,037,890 | \$ 2,822,154 |
| Cash received from other sources | 1,397 | 1,706 |
| Cash payments to employees for services | (1,158,214) | (1,195,827) |
| Cash payments to suppliers for goods and services | (1,363,685) | (1,272,582) |
| Cash payments for other expenses | (130,087) | (138,640) |
| Net cash provided by operating activities | 387,301 | 216,811 |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (17,446) | (14,078) |
| Proceeds from the sale of capital assets | - | 50 |
| Net cash used in capital and related financing activities | (17,446) | (14,028) |
| Cash flows from investing activities: | | |
| Proceeds from maturing investments | 1,194,740 | 1,300,674 |
| Purchases of investments | (997,290) | (1,687,687) |
| Non-operating rental activities | 12,965 | 21,679 |
| Interest income | 19,521 | 15,477 |
| Net cash provided by (used in) investing activities | 229,936 | (349,857) |
| Increase (decrease) in cash | 599,791 | (147,074) |
| Cash - beginning of year | 517,150 | 664,224 |
| Cash - end of year | \$ 1,116,941 | \$ 517,150 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 163,086 | \$ 75,104 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 38,197 | 44,430 |
| Loss on disposal of vehicle | - | 7,100 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,878 | (5,378) |
| Accounts payable | (14,417) | 7,046 |
| Unearned revenue | 125,940 | 26,160 |
| Due to examination vendors | 71,182 | 62,940 |
| Accrued vacation | 1,435 | (591) |
| Total adjustments | 224,215 | 141,707 |
| Net cash provided by operating activities | \$ 387,301 | \$ 216,811 |

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Notes to Financial Statements**

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The North Carolina State Board of Certified Public Accountant Examiners (Board) is an independent State agency. It is an occupational licensing board authorized by Chapters 93 and 93B of the *North Carolina General Statutes*. The Board is composed of seven members: five persons who are holders of valid and unrevoked certified public accountant certificates issued under the provisions of Chapter 93, and two persons who are not certified public accountants and represent the public at large.

The Board's primary responsibilities are to administer the Uniform CPA Examination, to grant certificates of qualification as certified public accountants to qualified persons, to register certified public accounting firms, adopt and enforce the Rules of Professional Ethics and Conduct to be observed by CPAs in this State, and to enforce all statutes and rules of *North Carolina General Statutes* Chapter 93 and the *North Carolina Administrative Code*, Title 21, Chapter 08.

The Board had 20,714 and 20,238 licensees as of March 31, 2016 and 2015, respectively.

Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's *Comprehensive Annual Financial Report* (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

Basis of Presentation

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB).

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Cash

This classification includes cash on deposit and money market accounts with private bank accounts.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Notes to Financial Statements**

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured and depreciation is recorded as a cost of operations. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows. Fees received for the various licenses are deemed earned when the license period begins on July 1st.

The Board classifies its revenues as operating or non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of examination and license fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Non-operating revenues and expenses consist primarily of rental and investing type activities. Building expenses are allocated to operating or non-operating activities based on square footage.

Investments

This classification includes non-negotiable certificates of deposit with original maturities of more than three months. Certificates of deposit maturing within one year are shown as current. The certificates of deposit are reported at fair market value, which is cost plus accrued interest to date.

Receivables

Receivables consist of amounts due from administrative proceedings and are shown at book value with no provision for doubtful accounts considered necessary.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Board capitalizes assets that have a value or cost of \$500 or greater at the date of acquisition and an expected useful life in excess of two years. Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---------------------------|---------------|
| Building and improvements | 10 - 40 years |
| Furniture | 7 - 10 years |
| Equipment | 5 - 10 years |
| Software | 5 years |

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the financial records. Any gain or loss on disposition is reflected in non-operating revenue or expense for the year.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Notes to Financial Statements**

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

The Board occupies 75% of its building while leasing the other 25% of the building, which is accounted for as a non-operating activity.

Noncurrent Liabilities

Noncurrent liabilities consist of compensated absences that will not be paid within the next fiscal year.

Compensated Absences

Employees are permitted to accumulate earned but unused vacation pay benefits and all vacation pay is accrued when incurred. When determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. The Board's policy provides for a maximum accumulation of unused vacation leave of 30 days for staff members and 45 days for the Executive and Deputy Directors which can be carried forward each April 1st, or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days as of March 31 is converted to sick leave.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. There is no liability for unpaid accumulated sick leave because the Board has no obligation to pay sick leave upon employee termination or retirement.

Net Position

Investment in capital assets - This represents the Board's total investment in capital assets, net of accumulated depreciation.

Unrestricted net position - This represents assets with no external restriction as to use or purpose. They can be employed for any purpose designated by the governing board, as distinguished from funds restricted externally for specific purposes.

The following designations of net assets represent management's estimates that are subject to change based on perceived operating conditions and situations.

| | |
|--|--------------------|
| Litigation | \$1,000,000 |
| Operating expenses | 300,000 |
| Capital asset acquisitions and/or improvements | 100,000 |
| | <u>\$1,400,000</u> |

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the Board are deposited in board-designated official depositories or brokerage firms. The Board's deposits include cash on deposit with private bank accounts, money market accounts, and certificates of deposit. At March 31, 2016, deposits in private financial institutions, with a carrying value of \$2,608,190 and a bank balance of \$2,635,779, consists of cash and investments, as shown on the Statements of Net Position. Included in the deposits in private financial institutions are certificates of deposit in the amount of \$1,491,249 reported as investments in the Statements of Net Position.

Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board does not have a formal deposit policy for custodial credit risk. The Board's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Board's bank deposits in excess of the FDIC insured limit totaled \$397,668 at March 31, 2016.

There are no legal limitations on the types of investments by the Board. The Board has adopted formal investment policies to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the Board.

The Board is subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments. In accordance with its investment policy, the Board manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. For its major investment type, certificates of deposit, maturities may not exceed 24 months.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board manages credit risk by diversifying its investment portfolio. Investments are limited to:

- Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States
- Obligations of the State of North Carolina
- Time deposits, certificates of deposit, and savings accounts in financial institutions with a physical presence in North Carolina
- Corporate bonds of North Carolina-based industries

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at March 31, 2016, for the Board's investments.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Properties of Debt Securities</u> | |
|-------------------------|-----------------------|--|----------------|
| | | <u>Weighted Average Maturities</u> | <u>Ratings</u> |
| Other securities: | | | |
| Certificates of deposit | <u>\$1,491,249</u> | 5.2 Months | N/A |

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

A reconciliation of deposits and investments for the Board to the basic financial statements at March 31, 2016, is as follows:

| | |
|---|--------------------|
| Carrying amount of deposits with private financial institutions | \$ 373,215 |
| Money market mutual funds | 743,726 |
| Investments in certificates of deposit | 1,491,249 |
| Total deposits and investments | <u>\$2,608,190</u> |
| Current: | |
| Cash | \$1,116,941 |
| Short-term investments | 1,245,449 |
| Noncurrent: | |
| Investments | 245,800 |
| Total deposits and investments | <u>\$2,608,190</u> |

NOTE 3 - CAPITAL ASSETS

Changes in capital assets as of and for the year ended March 31, 2016 are as follows:

| | Balance April 1, 2015 | Additions | Deletions | Balance March 31, 2016 |
|--|-----------------------------|--------------------|-----------------|------------------------------|
| Capital assets, non-depreciable: | | | | |
| Land and improvements | \$ 300,000 | \$ - | \$ - | \$ 300,000 |
| Capital assets, depreciable: | | | | |
| Building | 931,784 | - | - | 931,784 |
| Furniture | 113,918 | - | - | 113,918 |
| Equipment | 192,463 | 17,446 | (23,257) | 186,652 |
| Software | 180,337 | - | - | 180,337 |
| Total capital assets, depreciable | <u>1,418,502</u> | <u>17,446</u> | <u>(23,257)</u> | <u>1,412,691</u> |
| Less accumulated depreciation: | | | | |
| Building | (365,435) | (25,137) | - | (390,572) |
| Furniture | (113,655) | (135) | - | (113,790) |
| Equipment | (148,593) | (18,463) | 23,257 | (143,799) |
| Software | (179,810) | (525) | - | (180,335) |
| | <u>(807,493)</u> | <u>(44,260)</u> | <u>23,257</u> | <u>(828,496)</u> |
| Total capital assets, depreciable, net | <u>611,009</u> | <u>(26,814)</u> | <u>-</u> | <u>584,195</u> |
| Capital assets, net | <u>\$ 911,009</u> | <u>\$ (26,814)</u> | <u>\$ -</u> | <u>\$ 884,195</u> |

Depreciation charged to operations and non-operations was \$38,197 and \$6,063, respectively.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Notes to Financial Statements**

NOTE 4 - UNEARNED REVENUE

The Board defers revenue recognition in connection with resources that have been received, but not yet earned. Certificate renewal fees are collected in advance and recorded as unearned revenue at year-end to be recognized as revenue when the license period begins in the next fiscal year. Unearned revenue reported was \$152,640 and \$26,700 for the periods ended March 31, 2016 and 2015, respectively.

NOTE 5 - NONCURRENT LIABILITIES

A summary of changes in non-current liabilities for the year ended March 31, 2016, is presented as follows:

| | Balance April 1, 2015 | Additions | Deletions | Balance March 31, 2016 | Current Portion |
|----------------------|-----------------------------|-----------|-----------|------------------------------|--------------------|
| Compensated absences | \$ 78,003 | \$ 78,638 | \$ 77,203 | \$ 79,438 | \$ 7,332 |

NOTE 6 - EMPLOYEE PENSION PLAN

The Board participates in the North Carolina Licensing Board Retirement Savings Plan (Plan), which is a defined contribution plan created under Internal Revenue Code Section 401(k) for eligible employees. The Employer, defined as the eight participating licensing boards, is empowered to appoint and remove the Trustee and Administrator. The Plan is administered by Prudential Insurance Company of America.

Employees are eligible to participate in the Plan immediately upon employment. For each year of service, employer contributions and the applicable earnings vest 20% per year. A 6% contribution, based on eligible employee compensation, is made monthly by both the Board and the employee to the individual employee accounts. Employees are permitted to make additional voluntary contributions to the Plan up to the applicable Internal Revenue Code limits. Employee contributions and the applicable earnings on those contributions vest immediately. Nonvested Board contributions and the applicable earnings are forfeited upon termination from employment to the applicable participating licensing board. Administrative expenses are paid by the participating licensing boards equally among the participating Boards.

Board pension costs including administrative fees, totaled \$54,209 and \$56,007 for fiscal years 2016 and 2015, respectively. Employee contributions totaled \$83,505 and \$86,183 for fiscal years 2016 and 2015, respectively. The Board had no forfeitures in fiscal years 2016 or 2015.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Notes to Financial Statements**

NOTE 7 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are managed using a combination of methods, including purchase of commercial insurance and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Public Officers and Employees Liability Insurance - Tort claims against Board members of up to \$1,000,000 are retained by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the Board through the purchase of excess public officers' and employees' liability insurance with a private insurance company.

Fire, Automobile, and Other Loss Insurance - Fire, coverage for other property losses, and vehicular liability insurance are covered by contracts with a private insurance company.

Cyber Risk Insurance - The Board is protected for losses due to risks associated with e-business, the Internet, networks and informational assets with a private insurance company.

Employee and Computer Fraud - The Board is protected for losses from employee dishonesty and computer fraud with a private insurance company.

Comprehensive Major Medical Plan - Employees are provided health care coverage by Blue Cross Blue Shield of North Carolina. The Plan is funded by employer and employee contributions.

The Board makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act by purchasing workers' compensation insurance for employees through a private insurance company.

NOTE 8 - LEASE REVENUE - NONOPERATING

During the 2016 fiscal year, the Board leased office space to The Family Resource Center of Raleigh, Inc. The lease expired on December 1, 2015 with total rents received of \$21,856 for the year ending March 31, 2016.

Subsequent to year end, the Board entered into a three-year agreement to lease office space to Allen & Pinnix, P.A. The lease agreement calls for monthly payments of \$3,384 to be paid for the first year with a three percent annual increase in monthly payment amounts. Future minimum lease payments to be received under the lease agreement are as follows:

| | | |
|------|----|----------------|
| 2017 | \$ | 37,224 |
| 2018 | | 41,724 |
| 2019 | | 42,976 |
| 2020 | | 3,590 |
| | \$ | <u>125,514</u> |

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Notes to Financial Statements**

NOTE 9 - SCHOLARSHIP AWARD PROGRAMS

The *North Carolina General Statute* 93B-11 allows occupational licensing boards to use the interest earned on their funds for educational purposes to benefit licensees or the public. The Board provides these services through a Uniform CPA Examination “coupon” program and a graduate-level scholarship award program.

The Board awards a coupon, available to one financially-needy student graduating with an undergraduate degree in accounting, to each of the 36 North Carolina colleges and universities which grant undergraduate accounting degrees. Additional coupons are awarded at each of North Carolina’s historically black colleges and universities. The coupons are valid for one year from the date of issue and cover the graduating student’s initial application fee and the cost of sitting for each section of the Uniform CPA Examination. The current value of each coupon is \$959. The Board accounts for the coupon program by netting the costs associated with the actual redeemed coupons against its examination fee revenues. The cost of the coupon program totaled \$15,390 and \$26,854 for fiscal years 2016 and 2015, respectively.

The Board also awards a \$1,000 scholarship to one financially-needy student pursuing a graduate-level degree at each of the ten North Carolina colleges and universities that offer a graduate-level degree in accounting. The scholarship is awarded through the college or university in the student’s name. The Board accounts for the scholarship program by reporting a scholarship expense at the time the funds are disbursed to the awarding college or university. The cost of the scholarship program totaled \$5,500 and \$12,000 for fiscal years 2016 and 2015, respectively.

The costs for the scholarship award programs include the use of interest earned on the Board’s funds during the year.

NOTE 10 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through July 15, 2016, which is the date the financial statements were available to be issued. Except for the event described in Note 8, management discovered no subsequent events that should be disclosed.

The audit was conducted in approximately 100 hours at a cost of \$8,990.

SUPPLEMENTARY INFORMATION

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Schedules of Budget and Actual - Revenues, Expenses, and Changes in Net Position
Years Ended March 31, 2016 and 2015

| | 2016 | | | 2015 | | |
|-------------------------------------|-----------------------|---------------------|------------------------|-----------------------|---------------------|------------------------|
| | (Unaudited) Budget | Actual | Over (under) Budget | (Unaudited) Budget | Actual | Over (under) Budget |
| <u>Revenues:</u> | | | | | | |
| Examination fees | \$ 1,390,510 | \$ 1,518,280 | \$ 127,770 | \$ 1,312,210 | \$ 1,435,724 | \$ 123,514 |
| Licensing fees | 1,359,500 | 1,393,670 | 34,170 | 1,362,540 | 1,360,270 | (2,270) |
| Other | 47,354 | 61,074 | 13,720 | 56,645 | 60,021 | 3,376 |
| Total revenues | <u>2,797,364</u> | <u>2,973,024</u> | <u>175,660</u> | <u>2,731,395</u> | <u>2,856,015</u> | <u>124,620</u> |
| <u>Expenses:</u> | | | | | | |
| Personnel | 1,285,576 | 1,190,022 | (95,554) | 1,290,674 | 1,237,239 | (53,435) |
| Examination | 1,001,400 | 1,021,553 | 20,153 | 926,400 | 978,701 | 52,301 |
| Scholarship | 11,000 | 5,500 | (5,500) | 11,000 | 12,000 | 1,000 |
| Office | 375,000 | 368,822 | (6,178) | 329,300 | 331,367 | 2,067 |
| Board and legal | 139,822 | 117,798 | (22,024) | 123,495 | 97,977 | (25,518) |
| Building | 39,500 | 35,560 | (3,940) | 51,050 | 43,227 | (7,823) |
| Depreciation | - | 44,260 | 44,260 | - | 50,493 | 50,493 |
| Total expenses | <u>2,852,298</u> | <u>2,783,515</u> | <u>(68,783)</u> | <u>2,731,919</u> | <u>2,751,004</u> | <u>19,085</u> |
| Changes in net position | (54,934) | 189,509 | 244,443 | (524) | 105,011 | 105,535 |
| Net position - beginning of year | <u>2,535,521</u> | <u>2,535,521</u> | <u>-</u> | <u>2,430,510</u> | <u>2,430,510</u> | <u>-</u> |
| Net position - end of year | <u>\$ 2,480,587</u> | <u>\$ 2,725,030</u> | <u>\$ 244,443</u> | <u>\$ 2,429,986</u> | <u>\$ 2,535,521</u> | <u>\$ 105,535</u> |

Budgetary Information

Annual budgets are adopted by the Board and prepared and reported on the accrual basis of accounting. The budget prepared for fiscal year ended March 31, 2016 identifies major sources of revenue and expenses. Although budgeted amounts lapse at year-end, the Board retains its unexpended net assets to fund expenses of the succeeding years.