

NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013



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**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
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**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 is 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 statements balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statements balances.

In using the basic financial statements, the Notes to the Financial Statements accompanying the basic 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 Basic Financial Statements provide information to better understand details, risk, and uncertainty 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, 2014 and March 31, 2013, was approximately \$2.43 million and \$2.32 million, respectively, an increase of approximately \$111,000 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 North Carolina State Board of Certified Public Accountant Examiners' assets, liabilities and net position as of March 31, 2014, 2013 and 2012.

	Condensed Statements of Net Position					
	2014	2013	% Change	2013	2012	% Change
Assets:						
Current assets	\$ 1,968,146	\$1,267,240	55.31%	\$1,267,240	\$ 819,214	54.69%
Noncurrent assets	-	638,235	-100.00%	638,235	1,059,084	-39.74%
Capital assets, net	954,524	980,772	-2.68%	980,772	1,029,998	0.00%
Total assets	<u>2,922,670</u>	<u>2,886,247</u>	<u>1.26%</u>	<u>2,886,247</u>	<u>2,908,296</u>	<u>14.95%</u>
Liabilities:						
Current liabilities	420,011	502,393	-16.40%	502,393	549,586	-8.59%
Noncurrent liabilities	72,149	64,208	12.37%	64,208	77,458	-17.11%
Total liabilities	<u>492,160</u>	<u>566,601</u>	<u>-13.14%</u>	<u>566,601</u>	<u>627,044</u>	<u>-9.64%</u>
Net Position:						
Invested in capital assets	954,524	980,772	-2.68%	980,772	1,029,998	-4.78%
Unrestricted	1,475,986	1,338,874	10.24%	1,338,874	1,251,254	7.00%
Total net position	<u>\$ 2,430,510</u>	<u>\$2,319,646</u>	<u>4.78%</u>	<u>\$2,319,646</u>	<u>\$2,281,252</u>	<u>1.68%</u>

Current Assets

Current assets as of March 31, 2014, consisted primarily of cash of \$664,000, investments of \$1,302,000, and receivables of \$2,000. Current assets as of March 31, 2013, consisted primarily of cash of \$240,000, investments of \$1,019,000, and receivables of \$8,000.

Current assets increased during the fiscal year March 31, 2014, due to the increase in cash and short-term certificates of deposit as currently all of the Board's certificates of deposit mature within one year and are classified as current assets.

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

Noncurrent Assets and Capital

Noncurrent assets as of March 31, 2014, consisted of capital assets totaling \$955,000. Noncurrent assets as of March 31, 2013, consisted of investments of \$637,000, and capital assets of \$981,000.

Noncurrent assets decreased during the fiscal year March 31, 2014 due to the reclassification of investments totaling \$637,000 as current as noted above. Capital assets decreased due to expected depreciation expense.

Liabilities

Current liabilities as of March 31, 2014, consisted primarily of accounts payable of \$31,000, due to examination vendors of \$382,000, and accrued compensated absences of \$6,000. Current liabilities as of March 31, 2013, consisted primarily of accounts payable of \$26,000, due to examination vendors of \$451,000, and accrued compensated absences of \$25,000. The net decrease in current liabilities is primarily due to a \$69,000 decrease in the amount due to examination vendors related to fewer candidates sitting for the exam and a \$19,000 reduction in the compensated absences amount as earned annual leave amounts were paid to former employees.

Noncurrent liabilities consisted entirely of accrued compensated absences in the amount of \$72,000 and \$64,000 as of March 31, 2014 and 2013, respectively. The amount increased during the current year to properly reflect the above amount to be paid.

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 \$955,000 and \$981,000 as of March 31, 2014 and 2013, respectively. Unrestricted net assets of \$1.48 and \$1.34 million as of March 31, 2014 and 2013, 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, 2014, the increase in net position of approximately \$111,000 is primarily attributable to a reduction in legal and travel costs during the year.

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, 2014, 2013 and 2012.

	Condensed Statements of Revenues, Expenses, and Changes in Net Position					
	2014	2013	% Change	2013	2012	% Change
Operating revenues:						
Exam fees	\$ 1,292,925	\$1,435,721	-9.95%	\$1,435,721	\$1,494,670	-3.94%
Certificate fees	1,331,320	1,295,485	2.77%	1,295,485	1,275,560	1.56%
Miscellaneous	9,248	10,589	-12.66%	10,589	3,719	184.73%
Operating expenses	(2,557,971)	(2,741,057)	-6.68%	(2,741,057)	(2,636,454)	3.97%
Operating income	75,522	738	10133.33%	738	137,495	-99.46%

(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					
	2014	2013	% Change	2013	2012	% Change
Non-operating revenues	\$ 50,728	\$ 55,279	-8.23%	\$ 55,279	\$ 55,107	0.31%
Non-operating expenses	(15,386)	(17,623)	-12.69%	(17,623)	(16,559)	6.43%
	35,342	37,656	-6.15%	37,656	38,548	-2.31%
Increase in net position	110,864	38,394	188.75%	38,394	176,043	-78.19%
Net position beginning of year	2,319,646	2,281,252	1.68%	2,281,252	2,105,209	8.36%
Net position end of year	\$ 2,430,510	\$ 2,319,646	4.78%	\$ 2,319,646	\$ 2,281,252	1.68%

Operating Revenues

For the fiscal year ended March 31, 2014, operating revenues totaled \$2.63 million, consisting primarily of exam fee revenue of \$1.29 million and licensing fee revenues of \$1.33 million. For the fiscal year ended March 31, 2013, operating revenues totaled \$2.73 million, consisting primarily of exam fee revenue of \$1.44 million and licensing fee revenues of \$1.30 million.

Non-Operating Revenues

For the fiscal year ended March 31, 2014, non-operating revenues totaled \$50,000, primarily from interest income of \$19,000 and rental income of \$31,000. For the fiscal year ended March 31, 2013, non-operating revenues totaled \$55,000, primarily from interest income of \$25,000 and rental income of \$30,000. The significant change in non-operating revenue activity is related to a decrease in interest earnings due to expiring certificates of deposit and their renewals at a lower interest rate.

The following table summarizes the Board's expenses (operating and non-operating) for the reporting periods.

	Operating and Non-Operating Expenses For the Fiscal Years Ended March 31, 2014, 2013 and 2012					
	2014	2013	% Change	2013	2012	% Change
Operating expenses:						
Salaries and employee benefits	\$ 1,189,002	\$ 1,211,822	-1.88%	\$ 1,211,822	\$ 1,080,761	12.13%
Examination	857,776	979,094	-12.39%	979,094	1,036,110	-5.50%
Office expenses	390,646	383,013	1.99%	383,013	400,634	-4.40%
Depreciation	50,424	56,874	-11.34%	56,874	60,076	-5.33%
Other expenses	70,123	110,254	-36.40%	110,254	58,873	87.27%
Total operating expenses	\$ 2,557,971	\$ 2,741,057	-60.02%	\$ 2,741,057	\$ 2,636,454	3.97%
Non-operating expenses:						
Non-operating expenses	\$ 15,386	\$ 17,623	-12.69%	\$ 17,623	\$ 16,559	6.43%

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

For the fiscal year ended March 31, 2014, salary and employee benefits expenses decreased due to a reduction in health insurance costs related to the Board's early policy renewal. Examination costs decreased by \$121,000 due to fewer candidates sitting for the exam during the year. Other expenses decreased due to reduced hearing and legal costs during the year. Depreciation expense decreased as assets are depreciated in accordance with their useful lives.

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 95% of its revenues from examination and licensing fees. Exam revenues have decreased slightly over the past year as a smaller number of examination sections were taken by examination candidates. However, that decrease was offset by a slight increase in active licensees in North Carolina, resulting in an increase in registration fees. 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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, is presented for purposes of additional analysis and is 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, P.C.

Raleigh, North Carolina
August 25, 2014

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Statements of Net Position
March 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
ASSETS:		
Current assets:		
Cash	\$ 664,224	\$ 240,215
Short-term investments	1,301,686	1,018,696
Accounts receivable	1,000	6,474
Deferred lease commission	1,236	1,855
Total current assets	<u>1,968,146</u>	<u>1,267,240</u>
Noncurrent assets:		
Investments	-	637,000
Deferred lease commission	-	1,235
Capital assets, non-depreciable (Note 5)	300,000	300,000
Capital assets, depreciable, net (Note 5)	654,524	680,772
Total noncurrent assets	<u>954,524</u>	<u>1,619,007</u>
Total assets	<u>2,922,670</u>	<u>2,886,247</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	30,881	25,598
Unearned revenue	540	720
Due to examination vendors	382,145	450,639
Compensated absences- current portion	6,445	25,436
Total current liabilities	<u>420,011</u>	<u>502,393</u>
Noncurrent liabilities:		
Compensated absences (Note 4)	72,149	64,208
Total noncurrent liabilities	<u>72,149</u>	<u>64,208</u>
Total liabilities	<u>492,160</u>	<u>566,601</u>
NET POSITION:		
Net investment in capital assets	954,524	980,772
Unrestricted	1,475,986	1,338,874
Total net position	<u>\$ 2,430,510</u>	<u>\$ 2,319,646</u>

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS**
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Examination fees	\$ 1,292,925	\$ 1,435,721
Licensing fees	1,331,320	1,295,485
Miscellaneous	9,248	10,589
Total operating revenues	<u>2,633,493</u>	<u>2,741,795</u>
Operating expenses:		
Salaries and employee benefits	1,189,002	1,211,822
Examination	857,776	979,094
Office expenses	102,333	88,978
Postage and printing	147,557	142,028
Travel	83,782	102,914
Maintenance and computer support	56,974	49,093
Depreciation	50,424	56,874
Legal and investigative costs	18,745	41,406
Insurance	18,652	17,321
Dues and subscriptions	9,188	12,575
Scholarships	4,000	13,000
Building	19,538	25,952
Total operating expenses	<u>2,557,971</u>	<u>2,741,057</u>
Operating income	<u>75,522</u>	738
Non-operating revenues (expenses):		
Interest income	19,234	24,979
Rental income	31,209	30,300
Rental building expenses	(15,386)	(17,623)
Gain on the sale of equipment	285	-
Total non-operating revenues	<u>35,342</u>	<u>37,656</u>
Changes in net position	110,864	38,394
Net position - beginning of year	<u>2,319,646</u>	<u>2,281,252</u>
Net position - end of year	<u>\$ 2,430,510</u>	<u>\$ 2,319,646</u>

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC
ACCOUNTANT EXAMINERS
Statements of Cash Flows
Years Ended March 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from fees	\$ 2,624,245	\$ 2,680,746
Cash received from other amounts	1,548	1,889
Cash payments to employees for services	(1,200,052)	(1,199,636)
Cash payments for administrative, examination, and building expenses	(1,368,762)	(1,483,177)
Net cash provided by (used in) operating activities	<u>56,979</u>	<u>(178)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(30,239)	(13,712)
Proceeds from the sale of capital assets	285	-
Net cash used in capital and related financing activities	<u>(29,954)</u>	<u>(13,712)</u>
Cash flows from investing activities:		
Proceeds from maturing investments	1,018,674	908,549
Purchases of investments	(664,664)	(839,717)
Non-operating rental activities	23,740	12,677
Interest income	19,234	24,979
Net cash provided by investing activities	<u>396,984</u>	<u>106,488</u>
Increase in cash	424,009	92,598
Cash - beginning of year	240,215	147,617
Cash - end of year	<u>\$ 664,224</u>	<u>\$ 240,215</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 75,522	\$ 738
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	50,424	56,874
Changes in assets and liabilities:		
Accounts receivable	5,474	2,653
Accounts payable	5,283	1,686
Unearned revenue	(180)	(50,460)
Due to examination vendors	(68,494)	(23,855)
Accrued vacation	(11,050)	12,186
Total adjustments	<u>(18,543)</u>	<u>(916)</u>
Net cash provided by (used in) operating activities	<u>\$ 56,979</u>	<u>\$ (178)</u>
Supplemental disclosures of noncash investing, capital, and financing activities:		
Capital asset write-offs	<u>\$ -</u>	<u>\$ 37,172</u>

See Notes to Financial Statements

**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 19,784 and 19,384 licensees as of March 31, 2014 and 2013, 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.

**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 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.

Cash

This classification includes cash on deposit and money market accounts with private bank accounts. For the purpose of the Statements of Cash Flows, the Board considers all investments with a maturity of three months or less when purchased to be cash.

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 of in excess of two years.

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

**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)

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.

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 Director 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.

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

Litigation	\$ 750,000
Operating expenses	300,000
Capital asset acquisitions and/or improvements	100,000
	<u>\$1,150,000</u>

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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, 2014, deposits in private financial institutions, with a carrying value of \$1,965,910 and a bank balance of \$1,988,338, consists of cash and short-term investments, as shown on the Statements of Net Position. The short-term investments are certificates of deposit in the amount of \$1,301,686.

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 \$586,823 at March 31, 2014.

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.

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

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at March 31, 2014, 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>\$1,301,686</u>	8.5 months	N/A

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, 2014, is as follows:

Carrying amount of deposits with private financial institutions	\$ 176,201
Money market mutual funds	488,023
Investments in certificates of deposit	1,301,686
Total deposits and investments	<u>\$ 1,965,910</u>
Current:	
Cash and cash equivalents	\$ 664,224
Short-term investments	1,301,686
Noncurrent:	
Investments	-
Total deposits and investments	<u>\$ 1,965,910</u>

NOTE 3 - 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 on July 1st of the next fiscal year. Unearned revenue reported was \$540 and \$720 for the periods ended March 31, 2014 and 2013, respectively.

NOTE 4 - NON-CURRENT LIABILITIES

A summary of changes in non-current liabilities for the year ended March 31, 2014, is presented as follows:

	<u>Balance 4/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/2014</u>	<u>Current Portion</u>
Compensated absences	<u>\$ 89,644</u>	<u>\$ 81,026</u>	<u>\$ 92,076</u>	<u>\$ 78,594</u>	<u>\$ 6,445</u>

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

NOTE 5 - CAPITAL ASSETS

Changes in capital assets as of and for the year ended March 31, 2014 are as follows:

	Balance 4/1/2013	Additions	Deletions	Balance 3/31/2014
Capital assets, non-depreciable:				
Land and improvements	\$ 300,000	\$ -	\$ -	\$ 300,000
Capital assets, depreciable:				
Building	926,384	-	-	926,384
Furniture	113,918	-	-	113,918
Equipment	168,912	30,239	(9,468)	189,683
Software	180,337	-	-	180,337
Vehicles	26,622	-	-	26,622
Total capital assets, depreciable	<u>1,416,173</u>	<u>30,239</u>	<u>(9,468)</u>	<u>1,436,944</u>
Less accumulated depreciation:				
Building	(315,612)	(24,867)	-	(340,479)
Furniture	(112,403)	(932)	-	(113,335)
Equipment	(129,544)	(16,721)	9,468	(136,797)
Software	(168,081)	(8,643)	-	(176,724)
Vehicles	(9,761)	(5,324)	-	(15,085)
	<u>(735,401)</u>	<u>(56,487)</u>	<u>9,468</u>	<u>(782,420)</u>
Total capital assets, depreciable, net	<u>680,772</u>	<u>(26,248)</u>	<u>-</u>	<u>654,524</u>
Capital assets, net	<u>\$ 980,772</u>	<u>\$ (26,248)</u>	<u>\$ -</u>	<u>\$ 954,524</u>

Depreciation charged to operations and non-operations was \$50,424 and \$6,063, respectively.

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). The Employer, defined as the eight participating licensing boards, is empowered to appoint and remove the Trustee and Administrator.

Employees are eligible to participate in the Plan immediately upon employment. Employer contributions vest 20% a year for the first five years. A 6% contribution, based on eligible employee compensation, is made monthly by both the Board and the employee. Employees may make additional voluntary contributions to the Plan. The Plan is administered by Prudential Insurance Company of America. Board pension costs including administrative fees, totaled \$55,985 and \$51,369 for fiscal years 2014 and 2013, respectively. Employee contributions totaled \$139,189 and \$94,261 for fiscal years 2014 and 2013, respectively.

**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 coverage obtained from 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 - NON-OPERATING

Effective December 31, 2011, the Board entered into a three-year agreement to lease office space to The Family Resource Center of Raleigh, Inc. The lease agreement called for monthly payments of \$2,500 to be paid for the first year with a three percent annual increase in monthly payment amounts. The Board also incurred \$5,564 for a lease commission that is recognized as an expense over the term of the lease. Future minimum lease payments to be received under the lease agreement are as follows:

Fiscal Year Ending March 31,	Lease Revenue
<u>2015</u>	<u>\$ 21,218</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 \$16,228 and \$21,793 for fiscal years 2014 and 2013, respectively.

The Board also awards a \$1,000 scholarship to one financially-needy student pursuing a graduate-level degree at each of the 10 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 \$4,000 and \$13,000 for fiscal years 2014 and 2013, respectively.

NOTE 10 - RECLASSIFICATION

Information related to operating expenses in the 2013 Statement of Revenues, Expenses, and Changes in Net Position has been reclassified to conform to the 2014 presentation.

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through August 25, 2014, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed.

The audit was conducted in approximately 60 hours at a cost of \$8,475.

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, 2014 and 2013

	2014			2013		
	(Unaudited) Budget	Actual	Over (under) Budget	(Unaudited) Budget	Actual	Over (under) Budget
Revenues:						
Examination fees	\$ 1,415,834	\$ 1,292,925	\$ (122,909)	\$ 1,479,074	\$ 1,435,721	\$ (43,353)
Licensing fees	1,307,120	1,331,320	24,200	1,298,460	1,295,485	(2,975)
Other	59,250	59,976	726	75,520	65,869	(9,651)
Total revenues	<u>2,782,204</u>	<u>2,684,221</u>	<u>(97,983)</u>	<u>2,853,054</u>	<u>2,797,075</u>	<u>(55,979)</u>
Expenses:						
Personnel	1,268,114	1,220,169	(47,945)	1,292,764	1,256,205	(36,559)
Examination	1,001,400	859,216	(142,184)	1,078,300	980,474	(97,826)
Scholarship	10,000	4,000	(6,000)	10,000	13,000	3,000
Office	321,800	336,027	14,227	303,000	305,451	2,451
Board and legal	128,799	65,733	(63,066)	123,190	99,938	(23,252)
Building	37,350	31,725	(5,625)	51,530	40,675	(10,855)
Depreciation	-	56,487	56,487	-	62,938	62,938
Total expenses	<u>2,767,463</u>	<u>2,573,357</u>	<u>(194,106)</u>	<u>2,858,784</u>	<u>2,758,681</u>	<u>(100,103)</u>
Changes in net position	14,741	110,864	96,123	(5,730)	38,394	44,124
Net position - beginning of year	<u>2,319,646</u>	<u>2,319,646</u>	-	<u>2,281,252</u>	<u>2,281,252</u>	-
Net position - end of year	<u>\$ 2,334,387</u>	<u>\$ 2,430,510</u>	<u>\$ 96,123</u>	<u>\$ 2,275,522</u>	<u>\$ 2,319,646</u>	<u>\$ 44,124</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, 2014 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.