

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

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED  
MARCH 31, 2013 AND 2012**

**BERNARD ROBINSON & COMPANY, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS**

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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED MARCH 31, 2013 AND 2012**

**BOARD MEMBERS**

**Jose R. Rodriguez, CPA, President**

**Bucky Glover, CPA, Vice-President**

**Maria M. Lynch, Esquire, Secretary-Treasurer**

**Barton W. Baldwin, CPA**

**John M. Kledis, CPA**

**Michael H. Womble, CPA**

**Tawannah G. Allen, Ed.D.**

**ADMINISTRATIVE STAFF**

**Robert N. Brooks, Executive Director**

**David R. Nance, CPA, Deputy Director**

**Frank X. Trainor, Esquire, Staff Attorney**

**OUTSIDE LEGAL COUNSEL**

**Allen, Pinnix & Nichols, P.A.**

**Noel L. Allen, Esquire**

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

**FOR THE FISCAL YEARS ENDED MARCH 31, 2013 AND 2012**

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# **North Carolina State Board of Certified Public Accountant Examiners Management's Discussion and Analysis**

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## **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, deferred outflows, liabilities, deferred inflows, 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 statement

**North Carolina State Board of Certified Public Accountant Examiners**  
**Management's Discussion and Analysis**

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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 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.

**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; administration of the continuing professional education (CPE) compliance program; 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, 2013 and March 31, 2012, was approximately \$2.32 million and \$2.28 million, respectively, an increase of \$40,000 during the year.

**North Carolina State Board of Certified Public Accountant Examiners  
Management's Discussion and Analysis**

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**Condensed Financial Information**

The following table summarizes the North Carolina State Board of Certified Public Account Examiners' assets, liabilities and net position as of March 31, 2013 and 2012.

**Condensed Statements of Net Position  
March 31, 2013, 2012, and 2011**

<b>Assets</b>	2013	2012	% Change	2012	2011	% Change
Current Assets	\$ 1,267,240	\$ 819,214	54.69%	\$ 819,214	\$ 1,027,442	-20.27%
Noncurrent Assets	638,235	1,059,084	-39.74%	1,059,084	749,852	41.24%
Capital Assets, Net	980,772	1,029,998	-4.78%	1,029,998	911,349	13.02%
<b>Total Assets</b>	<b>2,886,247</b>	<b>2,908,296</b>	<b>-0.76%</b>	<b>2,908,296</b>	<b>2,688,643</b>	<b>8.17%</b>
<b>Liabilities</b>						
Current Liabilities	502,393	549,586	-8.59%	549,586	508,127	8.16%
Noncurrent Liabilities	64,208	77,458	-17.11%	77,458	75,307	2.86%
<b>Total Liabilities</b>	<b>566,601</b>	<b>627,044</b>	<b>-9.64%</b>	<b>627,044</b>	<b>583,434</b>	<b>7.47%</b>
<b>Net Position</b>						
Invested in Capital Assets	980,772	1,029,998	-4.78%	1,029,998	911,349	13.02%
Unrestricted	1,338,874	1,251,254	7.00%	1,251,254	1,193,860	4.81%
<b>Total Net Position</b>	<b>\$ 2,319,646</b>	<b>\$ 2,281,252</b>	<b>1.68%</b>	<b>\$ 2,281,252</b>	<b>\$ 2,105,209</b>	<b>8.36%</b>

**Current Assets**

Current assets as of March 31, 2013, consisted primarily of cash, \$240,000, investments, \$1,019,000, and receivables, \$8,000. Current assets as of March 31, 2012, consisted primarily of cash, \$148,000, investments, \$661,000, and receivables, \$10,000.

Current assets increased during the fiscal year March 31, 2013, due to the increase in cash and short-term certificates of deposit as a majority of the Board's certificates of deposit mature within one year and are classified as current assets.

**Noncurrent Assets and Capital**

Noncurrent assets as of March 31, 2013, primarily consisted of investments, \$637,000 and capital assets, \$981,000. Noncurrent assets as of March 31, 2012, consisted of investments, \$1,056,000, and capital assets, \$1,030,000.

Noncurrent assets decreased during the fiscal year March 31, 2013 due to the reclassification of investments as current noted above as well as the disposal of fully depreciated assets in the amount of \$38,000.

**North Carolina State Board of Certified Public Accountant Examiners**  
**Management's Discussion and Analysis**

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**Liabilities**

Current liabilities as of March 31, 2013, consisted primarily of accounts payable, \$26,000, due to examination vendors, \$451,000, accrued compensated absences, \$25,000, and unearned revenue, \$720. Current liabilities as of March 31, 2012, consisted primarily of accounts payable, \$24,000, due to examination vendors, \$474,000, and unearned revenue, \$51,000. The net decrease in current liabilities is primarily caused by the \$50,000 decrease in the unearned revenue due to the timing of licensees' certificate renewals and \$25,000 due to examination vendors related to a lesser number of candidates sitting for the exam. These amounts offset the increase of \$25,000 related to the accrued compensated absences which is due primarily to the anticipated payout of unused vacation accrual to the retiring deputy director.

Noncurrent liabilities consisted entirely of accrued compensated absences in the amount of \$64,000 and \$77,000 as of March 31, 2013 and 2012, respectively. The amount decreased during the current year to properly reflect the above amount to be paid out within the upcoming fiscal 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 \$981,000 and \$1,030,000 as of March 31, 2013 and 2012, respectively. Unrestricted net assets of \$1.34 and \$1.25 million as of March 31, 2013 and 2012, 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, 2013, the increase in net assets of \$40,000 is primarily attributable to the increase in non-operating income related to rental of Board office space.

**North Carolina State Board of Certified Public Accountant Examiners  
Management's Discussion and Analysis**

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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, 2013 and 2012.

**Condensed Statements of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Years Ended March 31, 2013, 2012, and 2011**

	2013	2012	% Change	2012	2011	% Change
Operating Revenues:						
Exam Fees	\$ 1,435,721	\$ 1,494,670	-3.94%	\$ 1,494,670	\$ 1,590,333	-6.02%
Certificate Fees	1,295,485	1,275,560	1.56%	1,275,560	1,063,660	19.92%
Miscellaneous	1,889	3,719	-49.21%	3,719	1,305	184.98%
Operating Expenses	(2,741,057)	(2,636,454)	3.97%	(2,636,454)	(2,724,269)	-3.22%
Operating Income (Loss)	(7,962)	137,495	-105.79%	137,495	(68,971)	-299.35%
Non-Operating Revenues	63,979	55,107	16.10%	55,107	40,053	37.59%
Non-Operating Expenses	(17,623)	(16,559)	6.43%	(16,559)	(12,004)	37.95%
Increase in Net Position	38,394	176,043	-78.19%	176,043	(40,922)	-530.19%
Net Position Beginning of Year	2,281,252	2,105,209	8.36%	2,105,209	2,146,131	-1.91%
Net Position End of Year	<u>\$ 2,319,646</u>	<u>\$ 2,281,252</u>	<u>1.68%</u>	<u>\$ 2,281,252</u>	<u>\$ 2,105,209</u>	<u>8.36%</u>

### Operating Revenues

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. For the fiscal year ended March 31, 2012, operating revenues totaled \$2.77 million, consisting primarily of exam fee revenue of \$1.49 million and licensing fee revenues of \$1.28 million.

### Non-Operating Revenues

For the fiscal year ended March 31, 2013, non-operating revenues totaled \$64,000, primarily from interest income of \$25,000 and rental income of \$30,000. For the fiscal year ended March 31, 2012, non-operating revenues totaled \$55,000, primarily from interest income of \$32,000 and rental income of \$10,000.

**North Carolina State Board of Certified Public Accountant Examiners  
Management's Discussion and Analysis**

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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, 2013, 2012, and 2011**

<b>Operating Expenses</b>	2013	2012	% Change	2012	2011	% Change
Administrative	\$ 1,713,279	\$ 1,550,217	10.52%	\$ 1,550,217	\$ 1,566,714	-1.05%
Examination	980,474	1,037,369	-5.48%	1,037,369	1,121,545	-7.51%
Building	47,304	48,868	-3.20%	48,868	36,010	35.71%
<b>Total Operating Expenses</b>	<b>\$ 2,741,057</b>	<b>\$ 2,636,454</b>	<b>3.97%</b>	<b>\$ 2,636,454</b>	<b>\$ 2,724,269</b>	<b>-3.22%</b>
<b>Non-Operating Expenses</b>						
Non-Operating Expense	\$ 17,623	\$ 16,559	6.43%	\$ 16,559	\$ 12,004	37.95%
<b>Total Non-Operating Expenses</b>	<b>\$ 17,623</b>	<b>\$ 16,559</b>	<b>6.43%</b>	<b>\$ 16,559</b>	<b>\$ 12,004</b>	<b>37.95%</b>

For the fiscal year ended March 31, 2013, the increase in administrative expenses was related to an increase in salaries and benefits cost of \$131,000 related to the hiring of a replacement deputy director and increased health care costs. Additional costs were also incurred for board travel \$11,000, postage \$11,000, scholarships \$7,000, and computer software costs \$11,000. Examination costs decreased by \$57,000 as a lesser number of candidates sat for the exam during the 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 95% of its revenues from examination and licensing fees. Exam revenues have decreased slightly over the past year as a lesser 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.

**North Carolina State Board of Certified Public Accountant Examiners  
Management's Discussion and Analysis**

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**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

Board of Directors  
North Carolina State Board of Certified Public Accountant Examiners  
Raleigh, North Carolina

### ***Report on the Financial Statements***

We have audited the statements of net position of the North Carolina State Board of Certified Public Accountant Examiners (the Board) as of March 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the fiscal years then ended and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

Our responsibility is to express opinions on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 opinions.

Board of Directors  
North Carolina State Board of Certified Public Accountant Examiners

***Opinions***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Board's activities as of March 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance 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 the management's discussion and analysis 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The supplementary schedules listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Bernard Robinson & Company, P.C.*

Raleigh, North Carolina  
August 19, 2013

**North Carolina State Board of Certified Public Accountant Examiners**  
**Statements of Net Position**  
**As of March 31**

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 240,215	\$ 147,617
Short-Term Investments	1,018,696	660,615
Accounts Receivable	6,474	9,127
Deferred Lease Commission	1,855	1,855
<b>Total Current Assets</b>	<b>1,267,240</b>	<b>819,214</b>
Noncurrent Assets:		
Investments	637,000	1,055,993
Deferred Lease Commission	1,235	3,091
Capital Assets, Non-Depreciable (Note 4)	300,000	300,000
Capital Assets, Depreciable, Net (Note 4)	680,772	729,998
<b>Total Noncurrent Assets</b>	<b>1,619,007</b>	<b>2,089,082</b>
<b>Total Assets</b>	<b>2,886,247</b>	<b>2,908,296</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	25,598	23,912
Due to Examination Vendors	450,639	474,494
Unearned Revenue	720	51,180
Compensated Absences (Note 5)	25,436	-
<b>Total Current Liabilities</b>	<b>502,393</b>	<b>549,586</b>
Noncurrent Liabilities:		
Compensated Absences (Note 5)	64,208	77,458
<b>Total Liabilities</b>	<b>566,601</b>	<b>627,044</b>
<b>NET POSITION</b>		
Investment in Capital Assets	980,772	1,029,998
Unrestricted (Note 1K)	1,338,874	1,251,254
<b>Total Net Position</b>	<b>\$ 2,319,646</b>	<b>\$ 2,281,252</b>

The accompanying notes to the basic financial statements are an integral part of these audited statements.

***North Carolina State Board of Certified Public Accountant Examiners  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Years Ended March 31***

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Examination Fees	\$ 1,435,721	\$ 1,494,670
Licensing Fees	1,295,485	1,275,560
Miscellaneous	1,889	3,719
	<u>2,733,095</u>	<u>2,773,949</u>
<b>OPERATING EXPENSES</b>		
Administrative	1,713,279	1,550,217
Examination	980,474	1,037,369
Building	47,304	48,868
	<u>2,741,057</u>	<u>2,636,454</u>
Operating Income (Loss)	<u>(7,962)</u>	<u>137,495</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	24,979	31,952
Rental Income	30,300	10,000
Credit Card Rebates	8,700	13,050
Gain on the Sale of Equipment	-	105
Building	(17,623)	(16,559)
	<u>46,356</u>	<u>38,548</u>
Total Non-operating Revenues (Expenses)	<u>46,356</u>	<u>38,548</u>
Change in Net Position	38,394	176,043
<b>NET POSITION</b>		
Net Position - Beginning of Year	<u>2,281,252</u>	<u>2,105,209</u>
Net Position - End of Year	<u>\$ 2,319,646</u>	<u>\$ 2,281,252</u>

The accompanying notes to the basic financial statements are an integral part of these audited statements.

**North Carolina State Board of Certified Public Accountant Examiners**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended March 31**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS PROVIDED FROM (USED FOR) OPERATING ACTIVITIES</b>		
Received from Fees	\$ 2,680,746	\$ 2,756,200
Other Amounts Received	1,889	3,719
Payments to Employees for Services	(1,199,636)	(1,078,610)
Payments for Administrative, Examination, and Building Expenses	<u>(1,483,177)</u>	<u>(1,424,373)</u>
Net Cash Provided From (Used For) Operating Activities	<u>(178)</u>	<u>256,936</u>
<b>CASH FLOWS PROVIDED FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets	(13,712)	(183,774)
Proceeds From the Sale of Capital Assets	<u>-</u>	<u>105</u>
Cash Used For Capital and Related Financing Activities	<u>(13,712)</u>	<u>(183,669)</u>
<b>CASH FLOWS PROVIDED FROM (USED FOR) INVESTING ACTIVITIES</b>		
Proceeds from Maturing Investments	908,549	959,621
Purchases of Investments	(839,717)	(966,756)
Non-Operating Rental Activities	12,677	(6,456)
Interest Income	<u>24,979</u>	<u>32,349</u>
Cash Provided From Investing Activities	<u>106,488</u>	<u>18,758</u>
Net Increase in Cash	92,598	92,025
Cash - Beginning of Year	<u>147,617</u>	<u>55,592</u>
Cash - End of Year	<u>\$ 240,215</u>	<u>\$ 147,617</u>
<b>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES</b>		
Operating Gain (Loss)	\$ (7,962)	\$ 137,495
Adjustments to Reconcile Operating Gain (Loss) to Cash		
Provided From (Used For) Operating Activities:		
Depreciation Expense	56,874	60,076
Credit Card Rebates Redeemed	8,700	13,050
Changes in Assets and Liabilities:		
Accounts Receivable	2,653	2,705
Accounts Payable	1,686	(14,339)
Due to Examination Vendors	(23,855)	69,828
Unearned Revenue	(50,460)	(14,030)
Accrued Vacation	<u>12,186</u>	<u>2,151</u>
Net Cash Provided From (Used For) Operating Activities	<u>\$ (178)</u>	<u>\$ 256,936</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>		
Capital asset write-offs	<u>\$ 37,172</u>	<u>\$ -</u>

The accompanying notes to the basic financial statements are an integral part of these audited statements.

**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. 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 19,384 and 18,987 licensees as of March 31, 2013 and 2012, respectively.

- B. 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 Board is a component unit of the State of North Carolina and is an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*.

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, to be financially accountable, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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specific financial burdens on, the State. Financial accountability also exists when an organization is fiscally dependent upon the State.

As required by *North Carolina General Statute* 93-12, the Governor appoints the seven members of the Board. The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees. Because of the State's appointment of the Board and the benefit/burden relationship, the Board is a component unit of the State of North Carolina and the Board's basic financial statements are included in the State's CAFR.

The accompanying basic financial statements present all funds and activities for which the Board is responsible.

- C. Basis of Presentation** - The accompanying basic financial statements are presented 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.

- D. Basis of Accounting** - The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows.

The Board classifies its revenues and expenses 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 include activities that have characteristics of non-exchange transactions and consist primarily of

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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rental and investing type activities. Building expenses are allocated to operating or non-operating activities based on square footage.

- E. 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.
- F. 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.
- G. Receivables** - Receivables consist of amounts due from administrative proceedings and are shown at book value with no provision for doubtful accounts considered necessary.
- H. 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.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	10 - 40
Furniture	7 - 10
Equipment	5 - 10
Software	5
Vehicle	5

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 as a non-operating activity for the year.

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

- I. Noncurrent Liabilities** – Noncurrent liabilities consist of compensated absences that will not be paid within the next fiscal year.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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- J. 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 1<sup>st</sup> 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.

- K. Net Position** - The Board’s net position is classified as follows:

**Invested in Capital Assets** - This represents the Board’s total investment in capital assets, net of accumulated depreciation.

**Unrestricted Net Assets** - 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 tentative management plans that are subject to change based on perceived operating conditions and situations.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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Designated amounts as of March 31, 2013 were as follows:

Litigation	\$	750,000
Operating Expenses		300,000
Capital Asset Acquisitions and/or Improvements		100,000
		<hr/>
Total	\$	<u>1,150,000</u>

- L. 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, 2013 identifies major sources of revenue and expenses that were intended for the year and is presented as Schedules of Budget and Actual – Revenues, Expenses, and Changes in Net Position in the supplementary information. Although budgeted amounts lapse at year-end, the Board retains its unexpended net assets to fund expenses of the succeeding year.
- M. 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

- A. Deposits** - 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. The amount shown on the Statements of Net Position as cash consists of deposits in private financial institutions with a carrying value of \$1,895,911, and a bank balance of \$1,958,620. Included in the deposits in private financial institutions are certificates of deposit in the amount of \$1,655,696 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 \$465,710 at March 31, 2013.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

- B. Investments** - 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 of financial institutions with a physical presence in North Carolina

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at March 31, 2013, for the Board's investments.

Investment Type	Fair Value	Properties of Debt Securities	
		Weighted Average Maturities	Ratings
Other Securities:			
Certificates of Deposit	\$ 1,655,696	N/A	N/A

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

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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A reconciliation of deposits and investments for the Board to the basic financial statements at March 31, 2013, is as follows:

	<u>Amount</u>
Carrying Amount of Deposits with Private Financial Institutions	\$ 223,144
Money Market Mutual Funds	17,071
Investments in Certificates of Deposit	<u>1,655,696</u>
Total Deposits and Investments	<u>\$ 1,895,911</u>
Current:	
Cash and Cash Equivalents	\$ 240,215
Short-Term Investments	1,018,696
Noncurrent:	
Investments	<u>637,000</u>
Total Deposits and Investments	<u>\$ 1,895,911</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 in the next fiscal year. Unearned revenue reported was \$720 and \$51,180 for the periods ended March 31, 2013 and 2012, respectively.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended March 31, 2013, is presented as follows:

	Balance April 1, 2012	Additions	Deletions	Balance March 31, 2013
Capital Assets, Non-depreciable:				
Land and Improvements	\$ 300,000	\$ -	\$ -	\$ 300,000
Capital Assets, Depreciable:				
Building	917,143	9,241	-	926,384
Furniture	113,918	-	-	113,918
Equipment	201,613	4,471	(37,172)	168,912
Software	180,337	-	-	180,337
Vehicle	26,622	-	-	26,622
Total Capital Assets, Depreciable	1,439,633	13,712	(37,172)	1,416,173
Less Accumulated Depreciation				
Building	(290,899)	(24,713)	-	(315,612)
Furniture	(111,842)	(561)	-	(112,403)
Equipment	(147,849)	(18,867)	37,172	(129,544)
Software	(154,608)	(13,473)	-	(168,081)
Vehicle	(4,437)	(5,324)	-	(9,761)
Total Accumulated Depreciation	(709,635)	(62,938)	37,172	(735,401)
Total Capital Assets, Depreciable	729,998	(49,226)	-	680,772
Capital Assets, Net	\$ 1,029,998	\$ (49,226)	\$ -	\$ 980,772

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 the earnings for the period. The Board occupies 75% of the building and began leasing the other 25% of the office space during the 2012 fiscal year. Depreciation charged to operations and non-operations was \$56,874 and \$6,063, respectively.

### NOTE 5 - NON-CURRENT LIABILITIES

A summary of changes in non-current liabilities for the year ended March 31, 2013, is presented as follows:

	Balance April 1, 2012	Additions	Deletions	Balance March 31, 2013	Current Portion
Compensated Absences	\$ 77,458	\$ 82,297	\$ 70,111	\$ 89,644	\$ 25,436

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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### 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). Employees are eligible to participate in the Plan immediately upon employment. For each year of service, employees vest 20% in employer contributions. 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 \$51,369 and \$52,272 for fiscal years 2013 and 2012, respectively. Employee contributions totaled \$94,261 and \$87,958 for fiscal years 2013 and 2012, respectively.

### 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.

**Employee and Computer Fraud** - The Board is protected for losses from employee dishonesty and computer fraud for employees 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.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

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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 being recognized as an expense over the term of the lease. Future minimum lease payments to be received under the lease agreement are as follows:

<u>Fiscal Year</u>	<u>Lease Revenue</u>
2014	\$ 31,209
2015	21,218
	<u>\$ 52,427</u>

**NOTE 9 - SCHOLARSHIP AWARD PROGRAMS**

The *North Carolina General Statute* 93B-11 allows occupational licensing boards to use the interest earned on its 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 \$953. 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 \$21,793 and \$19,330 for fiscal years 2013 and 2012, respectively.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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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 \$13,000 and \$6,000 for fiscal years 2013 and 2012, respectively.

### NOTE 10 - FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been presented by their functional categories in the Statements of Revenues, Expenses, and Changes in Net Position. The Supplementary Schedules accompanying the basic financial statements include a summarization of those expenses by their natural classification for each fiscal year. Following are the functional categories and the services associated with those functions:

**Administrative** - Expenses for the overall direction of the Board, its general board activities, business management, recordkeeping, budgeting, and administrative services. Also included are the costs for the enforcement of all statutes and rules administered by the Board.

**Examination** - Expenses related to the administration of the Uniform CPA Examination by potential candidates including examination and grading costs.

**Building** - Maintenance and upkeep costs related to the Board owned building. Costs are allocated as operating and non-operating based on space leased to other occupants per Note 4.

### NOTE 11 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended March 31, 2013, the Board implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONCLUDED)

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GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided for business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. This Statement has been applied retrospectively and had no impact on the Board's net assets, changes in net assets or financial reporting disclosures.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance on how to present two newer financial statement elements - "deferred inflows" and "deferred outflows" - within a government's financial statements. Format changes to the balance sheet resulted in terminology changes from the "Net Asset" concept to the "Net Position" concept.

### NOTE 12 - RECLASSIFICATION

Information related to payments to employees for services and payments for administrative, examination, and building expenses in the 2012 comparative Statements of Cash Flows has been reclassified to conform to the 2013 presentation.

***North Carolina State Board of Certified Public Accountant Examiners  
Schedules of Administrative Expenses  
For the Fiscal Years Ended March 31***

	<u>2013</u>	<u>2012</u>
<b>Administrative Expenses</b>		
Salaries and Employee Benefits	\$ 1,211,822	\$ 1,080,761
Legal Counsel and Hearing Expense	41,407	38,691
Travel - Board Members	58,531	47,714
Postage	87,800	76,692
Depreciation	38,686	43,882
Printing	52,848	54,315
Credit Card Fees - License Renewals	40,337	43,297
Travel - Staff	44,383	41,051
Website Maintenance	3,831	14,903
Computer Programming and Assistance	1,740	2,965
Office Supplies	12,479	9,806
Insurance	14,157	9,288
Scholarships	13,000	6,000
Telephone	6,806	6,822
Dues and Subscriptions	12,575	10,911
Audit Fees	7,400	7,125
Clipping Service	4,377	4,369
Professional Continuing Education	3,234	1,850
Equipment Repairs and Maintenance	2,947	5,546
Consulting Fees	-	1,105
Payroll Service	1,819	1,752
Computer Software	43,522	32,735
Equipment Rental	890	869
Banking Fees	3,992	4,144
Miscellaneous	4,696	3,624
<b>Total Administrative Expenses</b>	<u>\$ 1,713,279</u>	<u>\$ 1,550,217</u>

*North Carolina State Board of Certified Public Accountant Examiners*  
*Schedules of Examination Expenses*  
*For the Fiscal Years Ended March 31*

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	<u>2013</u>	<u>2012</u>
<b>Examination Expenses</b>		
Examinations and Grading	\$ 979,094	\$ 1,036,110
Postage	1,380	1,259
<b>Total Examination Expenses</b>	<u>\$ 980,474</u>	<u>\$ 1,037,369</u>

*North Carolina State Board of Certified Public Accountant Examiners*  
*Schedules of Building Expenses*  
*For the Fiscal Years Ended March 31*

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	<u>2013</u>	<u>2012</u>
<b>Building Expenses - Operating</b>		
Depreciation	\$ 18,188	\$ 16,194
Utilities	9,271	6,496
Maintenance	16,681	23,567
Insurance	<u>3,164</u>	<u>2,611</u>
<b>Total Building Expenses - Operating</b>	<u>\$ 47,304</u>	<u>\$ 48,868</u>
<b>Building Expenses - Non-Operating</b>		
Depreciation	\$ 6,063	\$ 5,049
Utilities	3,090	2,166
Maintenance	5,560	7,855
Insurance	1,055	871
Leasing Commission	<u>1,855</u>	<u>618</u>
<b>Total Building Expenses - Non-Operating</b>	<u>\$ 17,623</u>	<u>\$ 16,559</u>

**North Carolina State Board of Certified Public Accountant Examiners**  
**Schedules of Budget and Actual - Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Years Ended March 31**

	2013			2012		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
<b>Revenues</b>						
Examination Fees	\$ 1,479,074	\$ 1,435,721	\$ (43,353)	\$ 1,564,688	\$ 1,494,670	\$ (70,018)
Licensing Fees	1,298,460	1,295,485	(2,975)	1,249,000	1,275,560	26,560
Other	75,520	65,869	(9,651)	32,000	58,826	26,826
<b>Total Revenues</b>	<b>2,853,054</b>	<b>2,797,075</b>	<b>(55,979)</b>	<b>2,845,688</b>	<b>2,829,056</b>	<b>(16,632)</b>
<b>Expenses</b>						
Personnel	1,292,764	1,256,205	(36,559)	1,149,809	1,126,048	(23,761)
Examination	1,078,300	980,474	(97,826)	1,154,000	1,037,369	(116,631)
Scholarship	10,000	13,000	3,000	10,000	6,000	(4,000)
Office	303,000	305,451	2,451	301,825	287,882	(13,943)
Board and Legal	123,190	99,938	(23,252)	150,441	86,405	(64,036)
Building	51,530	40,675	(10,855)	58,901	44,184	(14,717)
Depreciation	-	62,938	62,938	-	65,125	65,125
<b>Total Expenses</b>	<b>2,858,784</b>	<b>2,758,681</b>	<b>(100,103)</b>	<b>2,824,976</b>	<b>2,653,013</b>	<b>(171,963)</b>
<b>Change in Net Position</b>	<b>(5,730)</b>	<b>38,394</b>	<b>44,124</b>	<b>20,712</b>	<b>176,043</b>	<b>155,331</b>
<b>Net Position - Beginning of Year</b>	<b>2,281,252</b>	<b>2,281,252</b>	<b>-</b>	<b>2,105,209</b>	<b>2,105,209</b>	<b>-</b>
<b>Net Position - End of Year</b>	<b>\$ 2,275,522</b>	<b>\$ 2,319,646</b>	<b>\$ 44,124</b>	<b>\$ 2,125,921</b>	<b>\$ 2,281,252</b>	<b>\$ 155,331</b>