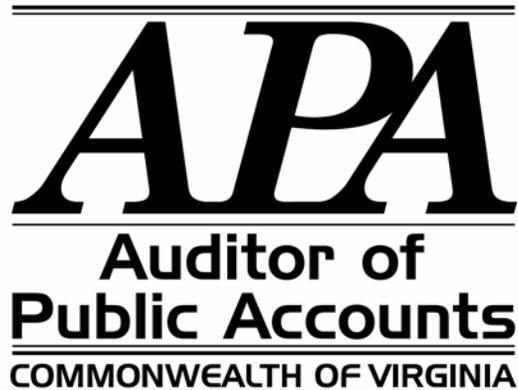


VIRGINIA BOARD OF ACCOUNTANCY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Virginia Board of Accountancy for the year ended June 20, 2005, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

As management of the Virginia Board of Accountancy (Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2005.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$1,281,216 (net assets), an increase of \$218,604 in comparison with the prior year. Of this amount, \$1,186,012 represents unrestricted net assets, which may be used to meet the Board's ongoing obligations to citizens and creditors.

At the close of the current fiscal year, the Board's governmental funds reported combined ending fund balances of \$1,190,357, an increase of \$215,911 in comparison with the prior year. The entire balance is unreserved and is available for spending at the Board's discretion.

During the current fiscal year, the Board created a new Special Enforcement Fund to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting. At the close of the current fiscal year, the Special Enforcement Fund reported an ending fund balance of \$807,740.

Overview of the Financial Statements

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

Entity-Wide Financial Statements

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

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

The Statement of Activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Board's funds are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has two governmental funds, both of which are special revenue funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for each fund.

The Board adopts an annual appropriated budget for its Operating Fund. A budgetary comparison statement has been provided for the Operating Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10-12 of this report.

Entity-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Virginia Board of Accountancy, assets exceeded liabilities by \$1,281,216 at the close of the most recent fiscal year.

By far the largest portion of the Board's net assets (93 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations to citizens and creditors. The remaining 7 percent of the Board's net assets reflects its investment in capital assets. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Virginia Board of Accountancy's Net Assets

	2005	2004
Current assets	\$1,230,615	\$1,026,674
Capital assets	95,204	91,200
Total assets	1,325,819	1,117,874
Current liabilities	40,258	52,228
Long-term liabilities	4,345	3,034
Total liabilities	44,603	55,262
Net assets:		
Invested in capital assets	95,204	91,200
Unrestricted	1,186,012	971,412
Total net assets	\$1,281,216	\$1,062,612

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

The Board's net assets increased by \$218,604 during the current fiscal year. This increase represents the degree to which license fees and interest income exceeded ongoing expenses. Key elements of this change are as follows:

Virginia Board of Accountancy's Changes In Net Assets

	2005	2004
Program revenues:		
Charges for services	\$ 743,160	\$ 696,533
General revenues:		
Interest income	29,788	15,562
Monetary penalties	15,000	9,000
Total revenues	787,948	721,095
Licensing and enforcement expenses	538,591	495,353
Increase in net assets before transfers	249,357	225,742
Transfers (net)	(30,753)	(35,467)
Increase in net assets:	218,604	190,275
Net assets – July 1	1,062,612	872,337
Net assets – June 30	\$1,281,216	\$1,062,612

Financial Analysis of the Entity's Special Revenue Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unreserved fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

Program Revenues and Expenditures

At the end of the current fiscal year, the Board's special revenue funds reported combined ending fund balances of \$1,190,357. This entire amount is unreserved, meaning it is available for spending at the Board's discretion.

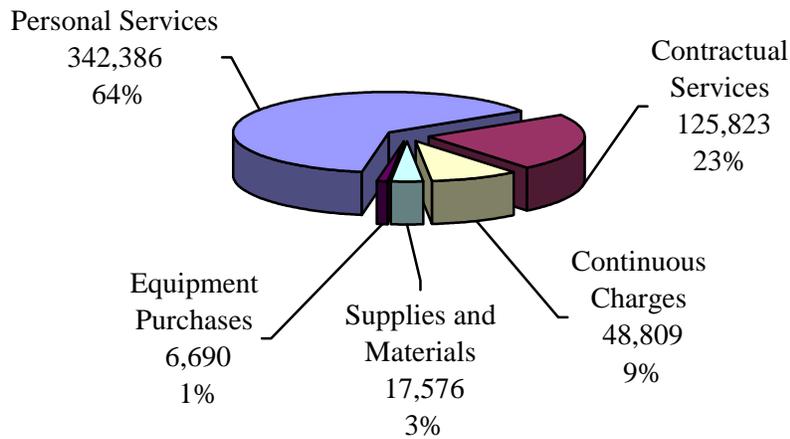
The Operating Fund is the chief operating fund of the Board. At the end of the current fiscal year, the unreserved fund balance of the Operating Fund was \$382,617. As a measure of the Operating Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The fund balance represents 71 percent of total expenditures.

The fund balance of the Board's Operating Fund decreased by \$591,829 during the current fiscal year. This decrease resulted from the Board's decision to transfer \$800,000 to the newly created Special Enforcement Fund. Other key factors affecting the change in fund balance are as follows:

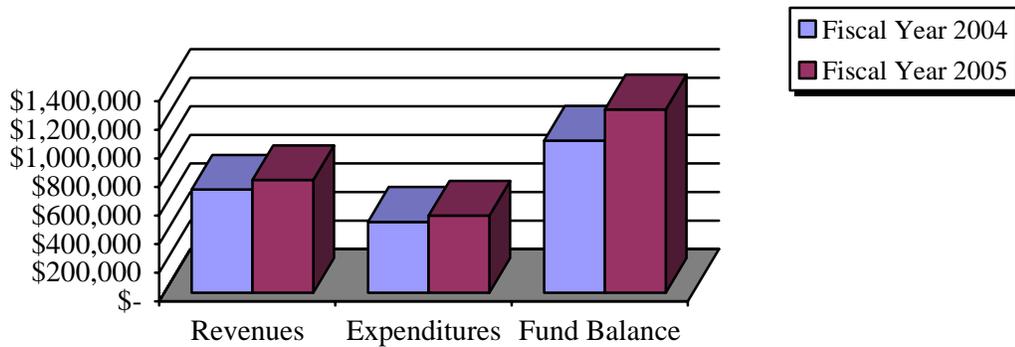
- The regulant population continues to grow steadily, causing revenues from applications and renewals to increase by \$30,318.
- The Board continues to encourage reinstatement of expired individual CPA licensees and CPA firm registrations, causing revenues from reinstatements to increase by \$13,099.
- Licensing and enforcement expenses increased by \$32,281, mostly as a result of increases in personal service costs, office rental space, and contractual service costs associated with maintaining the Board's computer systems.
- Mandatory transfers to the State General Fund decreased by \$10,714, while transfers of monetary penalties to the State Literary Fund decreased by \$9,000.

The Special Enforcement Fund has a total fund balance of \$807,740, all of which is unreserved. During the current fiscal year, the Board transferred \$800,000 to the fund. Interest income remains in the fund, helping to increase the fund balance.

Expenditures by Type



Revenues, Expenditures, and Fund Balances



Operating Fund Budgetary Highlights

The Board adopts an annual appropriated budget for its Operating Fund. Differences between the original budget and the final amended budget totaled \$33,000 and will be funded from the available fund balance. The budgetary increase can be summarized as follows:

- \$10,454 increase in personal services to fund cost-of-living salary increases
- \$22,546 increase in contractual services to fund rent increases and increased costs for information technology.

Capital Assets

The Board's investment in capital assets at June 30, 2005, amounts to \$95,204 (net of accumulated depreciation). This amount includes software costs for the Board's computerized licensing system. Additional information on the Board's capital assets can be found in Note 5 on page 16 of this report.

Economic Factors and Next Year's Budget and Rates

The Board's major source of revenue is license fees. Revenue from license fees, especially renewals, is expected to increase as the Board's regulant population continues to grow. The Board continues to encourage reinstatement of expired licenses and registrations and has experienced a high number of reinstatements during the last two years, adding to the increase in the regulant population.

CPA License Holders and Firm Registrations

	<u>At June 30, 2005</u>	<u>At June 30, 2004</u>
Individuals	18,545	16,832
Firms	<u>1,642</u>	<u>1,476</u>
Total	<u>20,187</u>	<u>18,308</u>

The Board determined that it would serve the citizens of the Commonwealth more effectively by assisting Virginia's CPA examination candidates directly from the Board office in Richmond. For many years, administration of the examination has been contracted to an exam vendor located in Nashville. The Board is currently involved in planning the essentials for this major change, which is scheduled to begin in August 2006. There will be a substantial decrease in the administration fees for candidates, including both initial applications and retakes. Increases in expenditures are also projected for the next biennium to meet additional staffing and information technology needs.

The Board's statutory powers were expanded at the beginning of the current fiscal year permitting them to assess monetary penalties against former licensees or other individuals or entities engaged in the unlicensed practice of public accounting. Revenues from monetary penalties and related transfers to the State Literary Fund are expected to increase as a result of this change.

All of these factors were considered in preparing the Board's budget for the upcoming fiscal year.

FINANCIAL STATEMENTS

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF NET ASSETS
As of June 30, 2005
With Comparative Figures for 2004

	Governmental Activities	
	2005	2004
Assets:		
Cash held by the Treasurer of Virginia	\$ 1,215,615	\$ 1,026,674
Accounts receivable	15,000	-
Capital assets, net of accumulated depreciation	95,204	91,200
Total assets	1,325,819	1,117,874
Liabilities:		
Accounts payable	7,335	34,385
Accrued salaries payable	17,923	17,843
Due to the State Literary Fund	15,000	-
Compensated absences payable	4,345	3,034
Total liabilities	44,603	55,262
Net Assets:		
Invested in capital assets	95,204	91,200
Unrestricted	1,186,012	971,412
Total net assets	\$ 1,281,216	\$ 1,062,612

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

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005
With Comparative Figures for 2004

	Governmental Activities			
	2005		2004	
	Program Revenues Charges for Expenses	Net Expense (Revenue) and Changes in Net Assets	Net Expense (Revenue) and Changes in Net Assets	
Functions/programs:				
Governmental activities:				
Licensing and enforcement functions	\$ 538,591	\$ 743,160	\$ 204,569	\$ 201,180
General revenues:				
Unrestricted interest income		29,788	15,562	
Monetary penalties		15,000	9,000	
Transfers:				
Transfers to the State General Fund		(15,753)	(26,467)	
Transfers to the State Literary Fund		(15,000)	(9,000)	
Total general revenues and transfers		14,035	(10,905)	
Changes in net assets		218,604	190,275	
Net assets, July 1		1,062,612	872,337	
Net assets, June 30		\$ 1,281,216	\$ 1,062,612	

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

VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2005
With Comparative Figures for 2004

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2005	Total 2004
ASSETS				
Cash held by the Treasurer of Virginia	\$ 407,875	\$ 807,740	\$ 1,215,615	\$ 1,026,674
Accounts receivable	15,000	-	15,000	-
Total assets	<u>\$ 422,875</u>	<u>\$ 807,740</u>	<u>\$ 1,230,615</u>	<u>\$ 1,026,674</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 7,335	\$ -	\$ 7,335	\$ 34,385
Accrued salaries payable	17,923	-	17,923	17,843
Deferred revenue	15,000	-	15,000	-
Total liabilities	<u>40,258</u>	<u>-</u>	<u>40,258</u>	<u>52,228</u>
Fund balance:				
Unreserved	<u>382,617</u>	<u>807,740</u>	<u>1,190,357</u>	<u>974,446</u>
Total liabilities and fund balance	<u>\$ 422,875</u>	<u>\$ 807,740</u>	<u>\$ 1,230,615</u>	<u>\$ 1,026,674</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance (per above)	1,190,357	974,446
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds.	95,204	91,200
Long-term liability for compensated absences is not due and payable in the current period and therefore is not reported in the funds.	<u>(4,345)</u>	<u>(3,034)</u>
Net assets of governmental activities (page 8)	<u>\$ 1,281,216</u>	<u>\$ 1,062,612</u>

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

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended June 30, 2005
With Comparative Figures for 2004

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2005	Total 2004
Revenues:				
Licenses and permits	\$ 743,160	\$ -	\$ 743,160	\$ 696,533
Interest income	22,048	7,740	29,788	15,562
Monetary penalties	-	-	-	9,000
Total revenues	765,208	7,740	772,948	721,095
Expenditures:				
Licensing and enforcement functions:				
Personal services	342,386	-	342,386	318,188
Contractual services	125,823	-	125,823	100,361
Supplies and materials	17,576	-	17,576	20,927
Transfer payments	-	-	-	1,994
Continuous charges	48,809	-	48,809	37,993
Equipment purchases	6,690	-	6,690	29,540
Total expenditures	541,284	-	541,284	509,003
Excess of revenues over expenditures	223,924	7,740	231,664	212,092
Other financing sources (uses):				
Transfers from other funds	(800,000)	800,000	-	-
Transfers to the State General Fund	(15,753)	-	(15,753)	(26,467)
Transfers to the State Literary Fund	-	-	-	(9,000)
Total other financing sources and uses	(815,753)	800,000	(15,753)	(35,467)
Net change in fund balance	(591,829)	807,740	215,911	176,625
Fund balance, July 1	974,446	-	974,446	797,821
Fund balance, June 30	\$ 382,617	\$ 807,740	\$ 1,190,357	\$ 974,446

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balance (per above)	215,911	176,625
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Governmental funds report capital asset expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

4,004	13,429
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The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.

(1,311)	221
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Changes in net assets of governmental activities (page 9)

\$ 218,604	\$ 190,275
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The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2005
With Comparative Figures for 2004

	Operating Fund					
	2005			2004		
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	Final Budget	Actual Amounts
Revenues:						
Licenses and permits	\$ 586,000	\$ 619,000	\$ 743,260	\$ 124,260	\$ 559,630	\$ 696,533
Interest income	-	-	22,048	22,048	-	15,562
Monetary penalties	-	-	-	-	-	9,250
Total revenues	586,000	619,000	765,308	146,308	559,630	721,345
Expenditures:						
Licensing and Enforcement functions:						
Personal services	278,173	288,627	342,456	(53,829)	306,252	314,754
Contractual services	143,990	166,536	129,080	37,456	122,258	92,730
Supplies and materials	10,000	10,000	30,346	(20,346)	10,000	8,613
Transfer payments	-	-	997	(997)	-	997
Continuous charges	53,837	53,837	48,837	5,000	47,490	38,216
Equipment purchases	100,000	100,000	16,638	83,362	73,630	19,596
Total expenditures	586,000	619,000	568,354	50,646	559,630	474,906
Excess (deficiency) of revenues over expenditures	-	-	196,954	196,954	-	246,439
Other financing sources (uses):						
Transfers to other funds	-	-	(800,000)	(800,000)	-	-
Transfers to the State General Fund	-	-	(15,753)	(15,753)	-	(26,467)
Transfers to the State Literary Fund	-	-	-	-	-	(12,800)
Total other financing sources and uses	-	-	(815,753)	(815,753)	-	(39,267)
Net change in fund balance	-	-	(618,799)	(618,799)	-	207,172
Fund balance, July 1	448,197	448,197	1,026,674	578,477	448,197	819,502
Fund balance, June 30	\$ 448,197	\$ 448,197	\$ 407,875	\$ (40,322)	\$ 448,197	\$ 1,026,674

This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual data prepared on the cash basis. Actual amounts reported on the modified accrual basis of accounting are different because:

Net change in fund balance (per above)	(618,799)	207,172
Accrued revenues on modified accrual basis	(100)	(250)
Accrued expenditures on modified	27,070	(34,097)
Accrued transfers on modified	-	3,800
Change in fund balance on modified accrual basis (page 11)	\$ (591,829)	\$ 176,625

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

NOTES TO FINANCIAL STATEMENTS

THE VIRGINIA BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their health, safety, and welfare. The Board's major activities include reviewing applications to ensure applicants are competent to enter the profession; administering the Uniform CPA exam; determining continued qualifications for licensure; conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical or professional standards.

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is an agency of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report.

B. Fund Accounting

The activities of the Board are accounted for in its special revenue funds. Special revenue funds account for transactions related to resources received and used for restricted or specific purposes.

The Board has two special revenue funds. The Operating Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those resources held in the Special Enforcement Fund. The Special Enforcement Fund accounts for the resources accumulated and payments made for the investigation and adjudication of matters involving possible violations of statutes or regulations pertaining to the profession of public accounting.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-Wide Financial Statements – The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the Board's financial activities. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to regulants. Interest income and other revenues not properly included among program revenues are reported instead as general revenues.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. License fees are recognized as revenue when received.

Governmental Fund Financial Statements – The financial statements also include separate fund financial statements. The Operating Fund and Special Enforcement Fund are reported in separate columns in the fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

2. BUDGETARY INFORMATION

The Board adopts an annual operating budget for its Operating Fund. The Board’s budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the state, and of estimated revenues and borrowing for a biennium, to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly, and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations. The Board received a supplemental appropriation of \$33,000 during the current fiscal year to fund cost-of-living salary increases and increases in building rental and information technology costs. The Board’s original and final adjusted budgets are included in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.

The Board has no current plans to spend monies in its Special Enforcement Fund. Consequently, the Board did not adopt an operating budget for the Special Enforcement Fund.

3. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Board are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund’s equity in pooled state funds is reported as “Cash Held by the Treasurer of Virginia” and is not categorized as to credit risk.

4. RECEIVABLES AND DUE TO THE STATE LITERARY FUND

The Board levies and collects penalties from regulants found guilty of violating the Board's statutes or regulations. The proceeds from these penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. Consequently, receivables are offset by a corresponding amount Due to the State Literary Fund and are not available to meet the Board's current operating needs. At June 30, 2005, the amount Due to the State Literary Fund for collections on monetary penalties was \$15,000 with no allowance for doubtful accounts.

5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2005:

	<u>Balance at June 30, 2004</u>	<u>Acquired</u>	<u>Deleted</u>	<u>Balance at June 30, 2005</u>
Software	\$139,506	\$25,141	\$ -	\$164,647
Equipment	<u>6,974</u>	<u>-</u>	<u>(6,974)</u>	<u>-</u>
Total capital assets	<u>146,480</u>	<u>25,141</u>	<u>(6,974)</u>	<u>164,647</u>
Less accumulated depreciation	<u>(55,280)</u>	<u>(17,816)</u>	<u>3,653</u>	<u>(69,443)</u>
Capital assets, net	<u>\$ 91,200</u>	<u>\$ 7,325</u>	<u>\$(3,321)</u>	<u>\$ 95,204</u>

The Board capitalizes all software and equipment with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. This includes capitalizing personal service cost associated with developing the software for internal use.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs are expensed on a straight-line basis over their estimated useful lives of five and seven years, respectively.

6. TRANSFER TO THE SPECIAL ENFORCEMENT FUND

Effective July 1, 2004, in accordance with §54.1-4405 of the Code of Virginia, a special non-reverting fund known as the Board of Accountancy Special Enforcement Fund was created. The purpose of the fund is to provide a supplemental source of funds to the Board on a timely basis for use in the study, research, investigation and adjudication of matters involving possible violations of statutes or regulations pertaining to the profession of public accounting or for any other purpose that the Board determines is germane to its statutory purposes. During the current fiscal year, the Board transferred \$800,000 to the Special Enforcement Fund.

7. LEASE COMMITMENTS

The Board of is committed under an operating lease for office space. The lease is for a one-year term ending May 31, 2006. The Board expects that in the normal course of business, the lease will be replaced by a similar operating lease. Rental expense for the fiscal year ended June 30, 2005 was \$32,253.

A summary of future obligations under lease agreements as of June 30, 2005, follows.

<u>Year Ending June 30,</u> 2006	<u>Amount</u> <u>\$33,144</u>
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8. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Assets represent the amounts of vacation, sick, and compensatory leave earned by the Board’s employees but not taken at June 30, 2005. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth’s leave payout policies. Information on the Commonwealth’s leave payout policies is available at the statewide level in the Commonwealth’s Comprehensive Annual Financial Report.

<u>Balance at</u> <u>June 30, 2004</u> <u>\$3,034</u>	<u>Increases</u> <u>\$5,816</u>	<u>Decreases</u> <u>\$(4,505)</u>	<u>Balance at</u> <u>June 30, 2005</u> <u>\$4,345</u>
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9. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

The Board’s employees are employees of the Commonwealth. The employees participate in a defined benefit plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available on a statewide level only in the Commonwealth’s Comprehensive Annual Financial Report. The Commonwealth, not the Board, has overall responsibility for contributions to these plans.

10. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Board participates in insurance plans maintained by the Commonwealth. The state employee health care and worker’s compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, and automobile plans. The Board pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth’s insurance plans is available at the statewide level in the Commonwealth’s Comprehensive Annual Financial Report.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

March 3, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
And Review Commission

Board Members
Virginia Board of Accountancy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the Special Revenue Funds of the **Virginia Board of Accountancy** as of and for the year ended June 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1A, the basic financial statements of the Board are intended to present the financial position, and the changes in financial position of only that portion of the governmental-type activities and the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Virginia as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Special Revenue Funds of the Virginia Board of Accountancy as of June 30, 2005, and the respective changes in financial position and budgetary comparison, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 1 through 6 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Virginia Board of Accountancy and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 22, 2006.

AUDITOR OF PUBLIC ACCOUNTS

GDS:sks
sks:29

VIRGINIA BOARD OF ACCOUNTANCY

As of June 30, 2005

The Board is comprised of five certified public accountants, one educator in the field of accountancy, and one citizen member. The Governor appoints each member to a term of four years.

Harry Dickinson, CPA
Chairman

Jane M. Little, CPA
Vice Chairman

Regina P. Brayboy, CPA Dian T. Calderone, CPA
O. Whitfield Broome, CPA Stephen D. Holton, CPA
Lawrence D. Samuel, CPA