

**STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
BASIC FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2014**

**STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY**

BOARD MEMBERS

John Mitchell, CPA	Chair
John Linn, Jr., CPA	Vice-Chair
David Pummel, CPA	Secretary-Treasurer
Martin Guindon, CPA	Ex Officio Member
Holly Brunick, CPA	Member
John Peterson	Lay Member

**STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY**

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	4 ó 5
Schedule of Prior Audit Findings	6
Schedule of Current Audit Findings and Recommendations	7
Independent Auditor's Report	8 ó 9
Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Fund Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13 ó 18

EAST, VANDER WOUDE, GRANT & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditor's Report On Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards**

The Honorable Dennis Daugaard
Governor of South Dakota
and
South Dakota Department of Labor and Regulation
700 Governors Drive
Pierre, South Dakota
and
South Dakota Board of Accountancy
301 East 14th Street, Suite 200
Sioux Falls, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the South Dakota Board of Accountancy (the Board), an enterprise fund of the South Dakota State government, as of and for the two years ended June 30, 2014, and the related notes to the financial statements, which collectively comprise South Dakota Board of Accountancy's basic financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

East, Vander Woude, Grant & Co., P.C.

East, Vander Woude, Grant & Co., P.C.

October 29, 2014

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2014

STATUS OF PRIOR AUDIT FINDINGS

There were no findings in the prior audit.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2014

CURRENT AUDIT FINDING AND RECOMMENDATION

There are no findings in the current audit.

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Independent Auditor's Report

The Honorable Dennis Daugaard
Governor of South Dakota
and
South Dakota Department of Labor and Regulation
700 Governors Drive
Pierre, South Dakota
and
South Dakota Board of Accountancy
301 East 14th Street, Suite 200
Sioux Falls, South Dakota

We have audited the accompanying financial statements of the business-type activities of the South Dakota Board of Accountancy, an enterprise fund of the State of South Dakota as of and for the two years ended June 30, 2014, and the related notes to the 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the South Dakota Board of Accountancy, an enterprise fund of the State of South Dakota, as of June 30, 2014 and 2013, and the respective 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the South Dakota Board of Accountancy are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of South Dakota that is attributable to the transactions of the South Dakota Board of Accountancy. They do not purport to, and do not present fairly the financial position of the State of South Dakota as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Information

The list of Board Members is presented for purposes of additional information and is not a required part of the basic financial statements, and has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014, on our consideration of the South Dakota Board of Accountancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the South Dakota Board of Accountancy's internal control over financial reporting and compliance.

East, Vander Woude, Grant & Co., P.C.

East, Vander Woude, Grant & Co., P.C.
October 29, 2014

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY - ENTERPRISE FUND
STATEMENTS OF NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 340,985	\$ 277,421
Investment income receivable	1,059	970
Total current assets	342,044	278,391
Noncurrent assets:		
Capital assets:		
Software development costs	140,063	140,063
Less accumulated depreciation	(128,999)	(116,928)
Total noncurrent assets	11,064	23,135
Total assets	\$ 353,108	\$ 301,526
Liabilities		
Current liabilities:		
Accounts payable	2,981	5,846
Amounts held for others	26,232	30,305
Accrued wages and benefits payable	7,478	6,462
Unearned revenues	39,470	-
Compensated absences, current portion	8,817	7,534
Total current liabilities	84,978	50,147
Noncurrent liabilities		
Compensated absences, long-term portion	7,869	6,585
Total noncurrent liabilities	7,869	6,585
Total liabilities	92,847	56,732
Net Position		
Net invested in capital assets	11,064	23,135
Unrestricted	249,197	221,659
Total net position	260,261	244,794
Total liabilities and net position	\$ 353,108	\$ 301,526

See accompanying notes to the financial statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY - ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013

	2014	2013
Operating revenues:		
Licenses, permits and fees:		
Business and occupational licensing:		
Initial permits and renewals	\$ 189,295	\$ 176,375
Examination fees	11,340	12,420
Total licenses, permits and fees	200,635	188,795
Charges for sales and services:		
Quality review	7,000	4,525
Recovery of costs of proceedings	1,250	700
Total charges for sales and services	8,250	5,225
Total operating revenues	208,885	194,020
Operating expenses:		
Personnel services	79,220	86,234
Employee benefits	35,611	33,916
Travel	12,088	19,946
Contractual services	57,008	66,360
Supplies and materials	2,495	7,723
Depreciation	12,070	12,070
Total operating expenses	198,492	226,249
Operating Income (Loss)	10,393	(32,229)
Non-operating revenues:		
Interest income	5,122	3,084
Investing expenses	(48)	(244)
Total non-operating revenues	5,074	2,840
Change in net position	15,467	(29,389)
Net position beginning of year	244,794	274,183
Net position end of year	\$ 260,261	\$ 244,794

See accompanying notes to the financial statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY - ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers	\$ 318,596	\$ 249,385
Payments to customers	(6,848)	(5,658)
Payments to suppliers	(141,922)	(163,206)
Payments to employees	(111,247)	(120,090)
Net cash provided (used) by operating activities	58,579	(39,569)
Cash flows from investing activities:		
Interest on investments	5,033	3,350
Investing expenses	(48)	(244)
Net cash provided (used) by investing activities	4,985	3,106
Net increase (decrease) in cash and cash equivalents	63,564	(36,463)
Cash and cash equivalents beginning of year	277,421	313,884
Cash and cash equivalents end of year	\$ 340,985	\$ 277,421
 Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 10,393	\$ (32,229)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	12,070	12,070
Increase (decrease) in accounts payable	(2,865)	644
Increase (decrease) amounts held for others	(4,073)	(474)
Increase (decrease) in unearned revenues	39,470	(19,640)
Increase (decrease) in accrued salaries payable	1,017	(726)
Increase in compensated absences	2,567	786
Net cash provided by operating activities	\$ 58,579	\$ (39,569)

See accompanying notes to the financial statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The fund included in this report is a fund of the State of South Dakota. The South Dakota Board of Accountancy is a function subunit the Department of Labor and Regulation. Consequently, the financial statements do not purport to, and do not, present fairly the financial position, changes in financial position, and cash flows of the State of South Dakota government in accordance with accounting principles generally accepted in the United States of America. The purpose of the Board is to administer and enforce the rules and regulations regarding the practice of public accounting.

b. Fund Accounting

The Board is accounted for as an enterprise fund of the State of South Dakota government. Enterprise funds are used to account for activities for which a fee is charged to external users for goods or services. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

c. Basis of Accounting

The Board is reported on the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and expenses are recognized when they are incurred.

d. Cash and Cash Equivalents

This account includes cash and investments include demand deposits and a participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the state's internal investment pool is reported at fair value.

e. Capital Assets

The Board's policy is to capitalize all assets with an acquisition cost of \$5,000 or more and a useful life of more than one year. All assets are valued at historical cost or estimated cost if actual cost is not available, except for donated assets which are recorded at their estimated fair value at the date of donation. All of the reported capital assets have been valued at actual cost as of June 30, 2014.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Revenues, Expenses, and Changes in Fund Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The estimated useful life of software development costs has been estimated to be six years.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

f. Compensated Absences

Annual leave is earned by all permanent employees who work in excess of 20 hours per week at the following rates:

0 to 15 years of service is .0576925 hours per hour worked cumulating to 240 hours

15 or more years of service is .076923125 hours per hour worked cumulating to 320 hours

Upon termination, if the employee has worked more than six months, all unused vacation hours are paid to the employee at the current rate of pay.

Sick leave is earned by all permanent employees at the rate of .053846154 hours per hour worked. Upon termination, if the employee has seven or more consecutive years of service, one-fourth of their accumulated sick leave balance, not to exceed 480 hours are paid to the employee at the current rate of pay.

A liability has been recorded in the financial statements for compensated absences in accordance with GASB statements. The current portion of this liability is estimated based on historical trends.

g. Equity

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
3. Unrestricted net position is all other net position that do not meet the definition of restricted or net investment in capital assets.

2. DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by state statutes. These restrictions are summarized below:

Deposits The Board's deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and with the South Dakota State Treasurer. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of the bank's public debt rating, which may not be less

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

than ðAAö or better, or a qualified public depository may furnish a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

The bank balance of the local checking account at June 30, 2014 was as follows:

	Bank
	<u>Balance</u>
Insured (FDIC/NCUA)	<u>\$ 4,549.53</u>
Total Deposits	<u>\$ 4,549.53</u>

The carrying amount of deposits at June 30, 2014 was \$4,549.53. They were all adequately insured as of June 30, 2014.

The Board's cash includes a participating interest in the State's internal investment pool held by the State Treasurer. The remaining reported cash of \$329,205.62 consists of \$329,205.62 held in the State's internal investment pool. The management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Commission (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501. Funds on deposit with the State Treasury are invested by the State Investment Officer pursuant to SDCL 4-5-23 with the Board getting its proportionate share of interest income under SDCL 4-5-30. The Board did not have privately held investments as of June 30, 2014.

3. CAPITAL ASSETS

A summary of changes in capital assets for the two fiscal years ended June 30, 2014, is as follows:

	Balance @ 6/30/13	Additions	Deletions	Balance @ 6/30/14
Computer software	\$ 140,063.23	\$ -	\$ -	\$ 140,063.23
Accum. depreciation	(116,928.29)	(12,070.40)	-	(128,998.69)
Capital Assets, Net	<u>\$ 23,134.94</u>	<u>\$ (12,070.40)</u>	<u>\$ -</u>	<u>\$ 11,064.54</u>
	Balance @ 6/30/12	Additions	Deletions	Balance @ 6/30/13
Computer software	\$ 140,063.23	\$ -	\$ -	\$ 140,063.23
Accum. depreciation	(104,857.89)	(12,070.40)	-	(116,928.29)
Capital Assets, Net	<u>\$ 35,205.34</u>	<u>\$ (12,070.40)</u>	<u>\$ -</u>	<u>\$ 23,134.94</u>

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

4. LONG- TERM DEBT

As of June 30, 2014, the following liabilities existed for accumulated unpaid leave balances calculated at the employees' June 30, 2014 pay rates including the employer's share of employee benefits:

Vacation pay	\$	8,817
Sick pay		7,869
Total		\$ 16,686

A summary of the changes in long-term debt follows:

		Compensated Absences
Debt payable, July 1, 2012	\$	13,334
Additions to compensated absences		14,120
Deductions from compensated absences		(10,768)
Debt payable, June 30, 2014	\$	16,686

See Note 1f for additional information relating to compensated absences.

5. LEASES

Operating Leases:

The South Dakota Board of Accountancy leases office space pursuant to an operating lease. A new lease was signed in October 2012 and will expire September 2018. Rents paid pursuant to this lease totaled \$15,233 and \$15,233 for the fiscal years ended June 30, 2013 and 2014, respectively.

The South Dakota Board of Accountancy leases a copier pursuant to an operating lease which expires December 2014. Rents paid pursuant to these leases totaled \$867 and \$684 for the fiscal years ended June 30, 2013 and 2014, respectively.

The South Dakota Board of Accountancy leases a postage meter/scale pursuant to an operating lease which expires September 2015. Rents paid pursuant to these leases totaled \$2,388 and \$2,388 for the fiscal years ended June 30, 2013 and 2014, respectively.

The following are the minimum payments on the existing operating leases:

Year Ending	Amount
6/30/15	\$ 17,963
6/30/16	15,830
6/30/17	15,233
6/30/18	15,233
6/30/19	3,808
Totals	\$ 68,067

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA BOARD OF ACCOUNTANCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6. RETIREMENT PLAN

The Board participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit plan established to provide retirement, disability, and survivor benefits for employees of the State of South Dakota and its political subdivisions. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6% of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The Board's contributions to the SDRS for the fiscal years ended June 30, 2012, 2013 and 2014 were \$6,079.69, \$4,931.93 and \$4,418.55 respectively.

7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The South Dakota Board of Accountancy is an enterprise fund of the State of South Dakota government and the Board employees are considered employees of the State of South Dakota. The State of South Dakota is self-insured for workers' compensation benefits, unemployment insurance, health insurance, and life insurance. The State of South Dakota covers risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through a Public Entity Pool Liability (PEPL). The State of South Dakota is insured for boiler insurance, aircraft, and performance bonds through outside insurance companies. The State of South Dakota is uninsured for property losses, with the exception of bonded and revenue-producing buildings that are covered through outside insurance companies.

The Board is charged premiums by the State of South Dakota for coverage provided.

The State of South Dakota issues a publicly available financial report that includes additional disclosures related to risk management.

8. EXAMINATION FEE REVENUE/AMOUNTS HELD FOR OTHERS

The Board collects the total exam fee from the participants but reports as revenue only the portion of the fee that belongs to the South Dakota Board of Accountancy as established by administrative rule. The portion of the exam fee that will be remitted to NASBA and others is reported as a current liability account titled "Amounts Held For Others."