

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**

**Financial Statements for the  
Years Ended May 31, 2016 and 2015 and  
Independent Auditor's Report**

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**

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Years Ended May 31, 2016 and 2015 and  
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**BOARD MEMBERS (2015-2016)**

Mark O. Stuemke, President

Raymond O. Dyer, Secretary-Treasurer

Frances H. Campbell

Calhoun D. Cunningham, III, MD

Angela T. Goodrich

Scarlett Gibbs Hall

Bruce D. Le

**BOARD ADMINISTRATOR**

Caitlin Schwab

**LEGAL COUNSEL**

North Carolina Department of Justice

# NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD

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# **NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the years ended May 31, 2016 and 2015. Please read it in conjunction with the financial statements which follow this section.

### **Financial Highlights**

During 2016, the Board's net position decreased by \$30,088, or 8.5%, due primarily to a decrease in revenues. During 2015, the Board's net position increased by \$18,627, or 5.5%, due primarily to an increase in revenues.

During 2016, the operating revenues of the Board decreased by \$37,040, or 20.3%, due primarily to a decrease in application and examination fees revenue. During 2015, the operating revenues of the Board increased by \$16,044, or 9.6%, due primarily to an increase in application and examination fees revenue.

During 2016, the non-operating revenues of the Board increased by \$384, or 16.4%, due primarily to an increase in interest earnings rates. During 2015, the non-operating revenues of the Board decreased by \$246, or 9.5%, due primarily to a loss on the disposition of obsolete computer equipment.

During 2016, the operating expenses of the Board increased by \$12,059, or 7.3%, due primarily to an incurrence of management service transition fees and legal related fees. During 2015, the operating expenses of the Board increased by \$20,723, or 14.2%, due primarily to an increase in exam expenses.

### **Overview of the Financial Statements**

This financial report consists of two sections: Management's Discussion and Analysis and the Financial Statements. The Board has no other supplementary information required by GASB 34. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

### **Basic Financial Statements**

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statements of Net Position present the current and long-term portions of assets and liabilities separately.

The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's assets changed as a result of its operations.

The Statements of Cash Flows present information on how the Board's cash changed as a result of its financial activities.

# NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Condensed Financial Information

The following presents condensed financial information on the operations of the Board:

	Current Year as of and for the year ended May 31, 2016	Current Year as of and for the year ended May 31, 2015
Current assets	\$ 230,345	\$ 234,303
Capital assets	893	1,549
Other assets	200,052	200,036
Total assets	<u>\$ 431,290</u>	<u>\$ 435,888</u>
Current liabilities	\$ 105,488	\$ 79,998
Total liabilities	<u>\$ 105,488</u>	<u>\$ 79,998</u>
Investment in capital assets	\$ 893	\$ 1,549
Unrestricted	324,909	354,341
Total net position	<u>\$ 325,802</u>	<u>\$ 355,890</u>
Operating revenues	\$ 145,423	\$ 182,463
Operating expenses	(178,230)	(166,171)
Operating income	<u>(32,807)</u>	<u>16,292</u>
Non-operating revenues	2,719	2,335
Change in net position	<u>\$ (30,088)</u>	<u>\$ 18,627</u>

### Events Affecting Future Operations

The Board has no significant events affecting future operations which are reportable pursuant to GASB 34.

### 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. If you have any questions about this report or need additional information, contact: North Carolina State Hearing Aid Dealers and Fitters Board, 3801 Lake Boone Trail, Suite 190, Raleigh, NC 27607.

***Shelton L. Hawley, CPA, PA***  
**Certified Public Accountants**

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Angier, North Carolina 27501-1545

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**INDEPENDENT AUDITOR'S REPORT**

Members of the Board  
North Carolina State Hearing Aid Dealers and Fitters Board  
Raleigh, North Carolina

***Report on the Financial Statements***

We have audited the accompanying financial statements of the North Carolina State Hearing Aid Dealers and Fitters Board (the "Board"), an independent state agency which is a nonmajor enterprise fund of the primary government of the State of North Carolina, as of and for the years ended May 31, 2016 and 2015, and the related notes to the financial statements, which comprise the Board's 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 an opinion on these financial statements based on the 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 financial statements. The procedures selected depend on the auditor's judgement, 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 auditors consider 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Hearing Aid Dealers and Fitters Board as of May 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

### *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 historic 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 supplementary information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance thereon.

A handwritten signature in black ink that reads "Shelton L. Hawley, C.P.A., P.A." The signature is written in a cursive style.

Shelton L. Hawley, C.P.A., P.A.

Angier, North Carolina

September 20, 2016

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD  
STATEMENTS OF NET POSITION  
MAY 31, 2016 AND 2015**

	<u>May 31, 2016</u>	<u>May 31, 2015</u>
	<u>Proprietary- Enterprise Fund</u>	<u>Proprietary- Enterprise Fund</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 226,170	\$ 233,763
Accounts receivable- licensees (fees in arrearage)		540
Prepaid management fee	4,175	
Total current assets	<u>230,345</u>	<u>234,303</u>
Capital assets (Note 1):		
Office equipment and software	893	1,549
Total capital assets - net of depreciation	<u>893</u>	<u>1,549</u>
Other assets:		
Investments (Note 2)	200,000	200,000
Accrued interest receivable (on investments)	52	36
Total other assets	<u>200,052</u>	<u>200,036</u>
<b>TOTAL ASSETS</b>	<u>\$ 431,290</u>	<u>\$ 435,888</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable (including fee overpayments)	\$ 12,356	\$ 498
Due to other state agencies	1,882	
Unearned revenue (Note 3)	91,250	79,500
Total current liabilities	105,488	79,998
<b>TOTAL LIABILITIES</b>	<u>105,488</u>	<u>79,998</u>
NET POSITION (NOTE 4)		
Investment in capital assets	893	1,549
Unrestricted net position	324,909	354,341
<b>TOTAL NET POSITION</b>	<u>325,802</u>	<u>355,890</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 431,290</u>	<u>\$ 435,888</u>

See notes to financial statements.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED MAY 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
	<b>Proprietary- Enterprise Fund</b>	<b>Proprietary- Enterprise Fund</b>
OPERATING REVENUES:		
Renewal fees	\$ 81,700	\$ 84,300
Application fees (including initial licensure fees)	24,750	40,650
Continuing education fee	11,272	12,190
Examination fees	25,500	42,300
Certificate fees	700	875
Late fees	200	775
Miscellaneous operating income	<u>1,301</u>	<u>1,373</u>
Total operating revenues	\$ 145,423	\$ 182,463
OPERATING EXPENSES:		
Contractual management services (Note 5)	\$ 69,668	\$ 54,000
Board members expenses	8,789	9,271
Contractual investigation services	75	160
Contractual consultant services (including rulemaking)	8,290	
Exam expenses	56,329	69,747
Depreciation expense	306	1,145
Telephone	1,858	1,419
Office and computer supplies (including copying)	956	2,031
Postage	944	776
Insurance and bonding	192	188
Legal and audit fees	24,749	27,001
Website management expenses	4,218	
Miscellaneous	<u>1,856</u>	<u>433</u>
Total operating expenses	\$ <u>178,230</u>	\$ <u>166,171</u>
Operating income (loss)	\$ (32,807)	\$ 16,292

See notes to financial statements.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED MAY 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
	<u>Proprietary- Enterprise Fund</u>	<u>Proprietary- Enterprise Fund</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,069	2,568
Gain (loss) on disposition of capital assets	<u>(350)</u>	<u>(233)</u>
Total non-operating revenues	\$ 2,719	\$ 2,335
Change in net position	<u>\$ (30,088)</u>	<u>\$ 18,627</u>
Net position - beginning of year	<u>355,890</u>	<u>337,263</u>
Net position - end of year	<u><u>\$ 325,802</u></u>	<u><u>\$ 355,890</u></u>

See notes to financial statements.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED MAY 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
	<b>Proprietary- Enterprise Fund</b>	<b>Proprietary- Enterprise Fund</b>
Cash flows from operating activities:		
Cash received from fees	\$ 156,412	\$ 180,945
Cash received from other operating revenues	1,301	1,384
Cash payments for operating expenses	(168,359)	(171,139)
Net cash provided (used) by operating activities	<u>\$ (10,646)</u>	<u>\$ 11,190</u>
Cash flows from investing activities:		
Transfer from certificate(s) of deposit to operating account	\$ 1,785	\$ 10,010
Transfer from operating account to certificate(s) of deposit	(1,785)	(1,537)
Interest earned	3,053	2,578
Net cash provided (used) by investing activities	<u>\$ 3,053</u>	<u>\$ 11,051</u>
Net increase (decrease) in cash	<u>\$ (7,593)</u>	<u>\$ 22,241</u>
Cash - beginning of year	<u>233,763</u>	<u>211,522</u>
Cash - end of year	<u><u>\$ 226,170</u></u>	<u><u>\$ 233,763</u></u>

See notes to financial statements.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED MAY 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
	<b>Proprietary- Enterprise Fund</b>	<b>Proprietary- Enterprise Fund</b>
Reconciliation of operating income		
to net cash provided by operating activities:		
Operating income (loss)	\$ (32,807)	\$ 16,292
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Changes in assets and liabilities:		
Depreciation	\$ 306	\$ 1,145
Other receivables	540	366
Prepaid expense	(4,175)	
Accounts payable	13,740	(6,113)
Unearned revenue	11,750	(500)
Total adjustments	\$ 22,161	\$ (5,102)
Net cash provided (used) by operating activities	<u>\$ (10,646)</u>	<u>\$ 11,190</u>
Supplemental disclosure (s) of noncash investing, capital and financing activities:		
Capital asset write-offs	<u>\$ (350)</u>	<u>\$ (233)</u>

See notes to financial statements.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2016 AND 2015**

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Note 1 - Nature of Activities and Significant Accounting Policies

**Description of Organization**

The North Carolina State Hearing Aid Dealers and Fitters Board (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 93D of the North Carolina General Statutes. The Board is composed of seven members who are appointed by the Governor of the State of North Carolina. It is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR).

The Board is established to maintain minimum standards for services provided by hearing aid dealers and fitters.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

All activities of the Board are accounted for within a single proprietary (enterprise) fund. 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.

**Reporting Entity**

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

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

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2016 AND 2015**

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Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

**Basis of Accounting**

In accordance with *Statement of Governmental Accounting Standards 34*, the Board herewith presents Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The Statements of Revenues, Expenses, and Changes in Net Position demonstrate the degree to which the direct expenses of the Board are offset by examination and license fees.

The financial statements report all activities of the North Carolina State Hearing Aid Dealers and Fitters Board using the economic resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable, regardless of the timing of cash flows.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities; and are classified as non-operating in the financial statements.

**Cash and Cash Equivalents**

These classifications include undeposited receipts, petty cash, checking accounts and time deposits (excluding certain certificates of deposit, if any) held by the Board.

**Investments**

The Board is authorized to invest idle funds in accordance with North Carolina General Statutes. This classification consists of certain certificates of deposits held by the Board for investment. Investments generally are reported at fair market value. Certificates of deposit are reported at cost (which is the same as fair value) if purchased in the primary certificate of deposit market, and at fair value if purchased in the secondary certificate of deposit market (as determined by quoted market prices). The net increase (decrease) in the fair value of investments for certificates of deposit is recognized as a component of investment interest income.

**Fair Value of Financial Instruments**

The carrying amounts of the Board's financial instruments approximate their fair value.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2016 AND 2015**

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

**Capital Assets**

Capital assets are stated at cost and are being depreciated over their useful lives on a straight-line basis. The Board capitalizes assets that have a value or cost of \$500 or greater at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method of deprecation over the estimated useful lives of the assets, generally estimated as follows: office furniture, equipment and specialized software, 5 years. Summaries follow:

	Cost			Net		
	5-31-15	Acquisitions	Disposals	5-31-16	Accumulated Depreciation	Amount
Office equipment/software	\$ 5,735	\$	\$ 4,205	\$ 1,530	\$ 637	\$ 893
	\$ 5,735	\$ 0	\$ 4,205	\$ 1,530	\$ 637	\$ 893

  

	Cost			Net		
	5-31-14	Acquisitions	Disposals	5-31-15	Accumulated Depreciation	Amount
Office equipment/software	\$ 6,870	\$	\$ 1,135	\$ 5,735	\$ 4,186	\$ 1,549
	\$ 6,870	\$ 0	\$ 1,135	\$ 5,735	\$ 4,186	\$ 1,549

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in earnings for the period. Depreciation expense was \$306 for the fiscal year ended May 31, 2016 and \$1,145 for the fiscal year ended May 31, 2015.

**Income Taxes**

The Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is exempt from federal and state income taxes.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2016 AND 2015**

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Note 2 - Deposits and Investments

**Deposits**

All of the Board's deposits which are uninsured are uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)] by the financial institution holding said deposits. For deposits, custodial credit risk is the risk that in the event of the failure of the depository (or counterparty), the Board will not be able to recover the value of its deposits that are in the possession of the outside party. The Board does not have policies regarding custodial credit risk for deposits.

At May 31, 2016, the Board's deposits had a carrying amount of \$426,170 and a bank balance of \$426,055. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$176,055 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)]. Certificates of deposit in the amount of \$200,000 are considered time deposits for this disclosure and are classified as investments on the Statements of Net Position. At May 31, 2015, the Board's deposits had a carrying amount of \$433,763 and a bank balance of \$427,191. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$177,191 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)]. Certificates of deposit in the amount of \$200,000 are considered time deposits for this disclosure and are classified as investments on the Statements of Net Position

**Investments**

At May 31, 2016 and 2015, the Board had the following investments and maturities.

Investment Type	May 31, 2016		May 31, 2015	
	Fair Value	Over 12 Months	Fair Value	Over 12 Months
Certificate of Deposit	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Certificate of Deposit	100,000	100,000	100,000	100,000
Total	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2016 AND 2015**

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Note 2 - Deposits and Investments (Continued)

**Risk Disclosures**

Interest rate risk - Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments. As a means of limiting its exposure to fair value losses arising from interest rate variances, the Board limits its investments, if any, to certificates of deposits with maturities of no more than 30 months and to money market mutual funds.

Credit risk - Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. Investments of the Board are subject to the statutory requirements of North Carolina General Statutes, however the Board's present policy for managing credit risk is to limit its investments to certificates of deposits and money market mutual funds.

Custodial credit risk - For deposits, custodial credit risk is the risk that in the event of the failure of the depository (or counterparty), the Board will not be able to recover the value of its deposits that are in the possession of the outside party. The Board does not have formal policies regarding custodial credit risk for deposits. Federal depository insurance is discussed in the preceding section.

**Reconciliation of Deposits and Investments**

A reconciliation of deposits and investments for the Board to the basic financial statements at May 31, 2016 and 2015, is as follows:

	<u>May 31, 2016</u>	<u>May 31, 2015</u>
Carrying Amount of Bank Deposits	\$ 226,170	\$ 233,763
Certificates of Deposits	200,000	200,000
Total Deposits and Investments	<u>\$ 426,170</u>	<u>\$ 433,763</u>
Current:		
Cash and Cash Equivalents	\$ 226,170	\$ 233,763
Noncurrent:		
Investments	200,000	200,000
Total Deposits and Investments	<u>\$ 426,170</u>	<u>\$ 433,763</u>

Note 3 - Unearned Revenue

The Board's fees are assessed and collected on an annual basis for the period April 1 through March 31, which does not correspond with the Board's accounting period. License renewal fees received in the latter part of the fiscal year are unearned and recognized as revenue over the one year period to which they relate.

**NORTH CAROLINA STATE HEARING AID DEALERS AND FITTERS BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2016 AND 2015**

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Note 4 - Net Position

Investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any loan proceeds (if any) that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted net position - expendable - This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The Board had no restricted net position.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of *restricted or investment in capital assets*.

Note 5 - Contractual Management Services

The Board does not have any employees. The Board contracted with a management consultant services to provide services for the Board. The contracts included all services related to the process of licensure application and renewal, exam services, and various other secretarial duties. The Board also reimbursed the management services for printing, postage, copying and miscellaneous office expenses. Payments to the management services (including related entities) totaled \$128,007 (\$43,402 to the latter management consultant service and \$84,605 to the former management consultant service) during the fiscal year ended May 31, 2016 and \$102,641 during the fiscal year ended May 31, 2015.

Note 6 - 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 handled by participation in certain state-administered risk programs and self retention of certain risks. Additionally, the Board has limited protection from exposure to loss through the purchase of certain commercial insurance coverage.

Note 7 - Contingencies

The Board is involved in occasional disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

Note 8 - Subsequent Events

Subsequent events have been evaluated through September 20, 2016, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 9 - North Carolina Legislative Statutory Disclosure Requirement Concerning Audit Fees

This audit required 52 audit hours at a cost of \$5,295.