

**NORTH CAROLINA BOARD OF
PHYSICAL THERAPY EXAMINERS**

FINANCIAL STATEMENTS

JUNE 30, 2017

NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS

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Independent Auditors' Report

Members of the Board
North Carolina Board of Physical Therapy Examiners
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Board of Physical Therapy Examiners as of and for the year ended June 30, 2017 and the related notes to the financial statements, 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 an opinion on these financial statements based on our audits.

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 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 audits 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Carolina Board of Physical Therapy Examiners as of June 30, 2017, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the North Carolina Board of Physical Therapy Examiners and do not purport to, and do not present fairly the financial position of the State of North Carolina, as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2017 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Barrett, Dodd & Associates, Ltd.

Durham, North Carolina
September 14, 2017

NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS
Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview to assist the reader in interpreting and understanding the accompanying basic financial statement. This overview includes a comparative financial analysis with discussion of significant changes from the prior year, as well as a discussion of currently known facts, decisions, and conditions. This information is provided by the North Carolina Board of Physical Therapy Examiners (NCBPTE).

Overview of the Basic Financial Statements

The Statement of Net Position provides information relative to the Board's assets, liabilities, and the resulting net position as of the last day of the fiscal year (June 30, 2017). Assets and liabilities on this statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payables in the next fiscal year. Net position on this statement is categorized as either invested in capital assets or unrestricted. Overall, the Statement of Net Position provides information relative to the financial strength of the Board and its ability to meet current and long-term obligations.

The Statement of Revenues, Expenses, and Changes in Net Position provides information relative to the results of the Board's operations, non-operating activities, and other activities affecting net position that occurred during the fiscal year. Operating activities include the licensure, licensure renewal and examination activities for the practice of physical therapy in the State. The Board does require disciplined licensees to reimburse the Board the "costs of investigation". Non-operating activity includes interest income. Overall, the Statement of Revenues, Expenses, and Changes in Net Position provides information relative to the Board's management of its operations and its ability to maintain its financial strength.

The Statement of Cash Flows provides information relative to the Board's sources and uses of cash funds for operating activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of activity reported on the Statement of Revenues, Expenses, and Changes in Net Position.

The Statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with GASB, the financial statements are presented on the Board as a whole and use reporting concepts in a manner similar to that required of a business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balances.

In using the basic financial statements, the Notes to the Financial Statements should be read in conjunction with the basic financial statements. The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the basic financial statements, authority for and associated risk of deposits, detailed information on capital assets and noncurrent liabilities, revenues and expenses, required information on pension plans, insurance against losses, commitments and contingencies, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the Board's financial statement period. Overall, the Notes to the Financial Statements provide information to better understand details, risks, and uncertainties associated with amounts reported in the basic financial statements.

NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS
Management's Discussion and Analysis

Brief Agency Highlights

- At the end of the fiscal year ending June 30, 2016, the Board had an operating loss of \$877,580 due to unanticipated litigation expenses (\$976,209) from a lawsuit the North Carolina Acupuncture Licensing Board filed against the Board.
- During the year ended June 30, 2017, litigation expenses associated with the NC Acupuncture Licensing Board's lawsuit totaled \$298,835 and were largely responsible for the Board's operating loss of \$108,946.
- Operating expenses, exclusive of litigation expenses, declined by \$14,185 from June 30, 2016 to June 30, 2017

Comparative Financial Highlights

Year End	06/30/2017	06/30/2016
Current Assets	\$1,399,689	\$1,501,878
Capital Assets-Net	47,802	66,624
Total Assets	1,452,735	1,569,252
Current Liabilities	29,565	65,645
Long-term Liabilities	48,594	22,847
Total Liabilities	78,159	88,501
Deferred Inflows	45,300	43,950
Net Position – Unrestricted	1,281,474	1,370,177
Operating Revenue	1,385,915	1,308,840
Operating Expenses	1,494,861	2,186,420
Operating Loss	(108,946)	(877,580)
Change in Net Position	(107,525)	(873,399)

- Total assets decreased from \$1,569,252 to \$1,452,735 in the year ending June 30, 2017, largely due to cash expenditures for legal fees associated with ongoing litigation involving the Acupuncture Board's lawsuit.
- Current liabilities declined in 2017 from 2016 largely due to the retirement of the former executive Director while vacation accrual for the remaining workforce increased long term liabilities for 2017.

- Deferred inflows represent exam fees paid in advance and remain fairly constant from year to year.
- Net position consists of amounts invested in capital assets of \$47,802 and \$66,624 for June 30, 2017 and 2016, respectively, and unrestricted amounts of \$1,281,474 and \$1,370,177, respectively. The decline in net position from June 30, 2016 to June 30, 2017, reflects the operating loss associated with the ongoing lawsuit discussed above.
- Operating revenues increased by \$77,075 from June 30, 2016 to June 30, 2017 primarily due to an increased number of applicants taking the exam and licenses renewed for the next year.

If you have any questions about this report or need additional information, contact:

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NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS
STATEMENT OF NET POSITION
ENTERPRISE FUND
JUNE 30, 2017

ASSETS

Current Assets:

Cash and cash equivalents (Note B)	\$ 955,010
Certificates of deposit (Note B)	<u>444,679</u>
Total Current Assets	1,399,689

Noncurrent Assets:

Capital assets (Note C)	
Furniture	44,172
Equipment	10,890
Computer equipment	<u>123,434</u>
	178,496
Less accumulated depreciation	<u>130,694</u>
	47,802
Other Assets	<u>5,244</u>
Total Noncurrent Assets	<u>53,046</u>
Total Assets	<u>1,452,735</u>

LIABILITIES

Current Liabilities:

Accrued vacation (Note D)	<u>29,565</u>
Total Current Liabilities	29,565

Long-Term Liabilities:

Accrued vacation (Note D)	<u>48,594</u>
Total Liabilities	<u>78,159</u>

DEFERRED INFLOWS OF RESOURCES:

Unearned revenue	<u>45,300</u>
Total Liabilities and Deferred Inflows	123,459

NET POSITION

Invested in capital assets	47,802
Unrestricted (Note G)	<u>1,281,474</u>
Total Net Position	<u>\$1,329,276</u>

See Independent Auditors' Report and Notes to Financial Statements

NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES

Charges for services:	
Renewal fees	\$ 1,130,400
License, revival, transfer and other fees	243,050
Disciplinary reimbursements	4,320
Other revenues	<u>8,145</u>
 Total operating revenues	 1,385,915

OPERATING EXPENSES

Staff salaries	602,088
Payroll tax expense	44,543
Retirement contributions (Note E)	36,762
Board members and other travel	
per diem, subsistence and registration	52,109
Legal and investigation (Note H)	411,382
Telephone	6,985
Postage	10,017
Newsletter and directory printing	10,626
Office supplies	13,433
Computer supplies and support	14,736
Professional fees	14,359
Group insurance	125,740
Insurance	23,636
Membership dues	3,180
Credit card transaction fees	37,256
Equipment rent (Note F)	7,973
Rent (Note F)	41,040
Utilities and other office expenses	8,267
Temporary labor	3,346
Chemical impairment program costs	1,000
Warranty Expense	300
Depreciation	<u>26,083</u>
 Total operating expenses	 <u>1,494,861</u>
 Operating loss	 \$ (108,946)

See Independent Auditors' Report and Notes to Financial Statements

NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2017

NONOPERATING REVENUES (EXPENSES):	
Interest income	\$ 3,556
Loss on disposal of capital assets	<u>(2,135)</u>
	<u>1,421</u>
Change in net position	(107,525)
Net position June 30, 2016	<u>1,436,801</u>
Net position June 30, 2017	<u>\$ 1,329,276</u>

See Independent Auditors' Report and Notes to Financial Statements

NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
JUNE 30, 2017

Cash flows from operating activities:	
Cash received from licensees and applicants	\$ 1,373,450
Cash received from others	12,465
Cash paid to employees and professionals	(1,036,865)
Cash paid to suppliers	<u>(445,399)</u>
Net cash flows used by operating activities	(96,349)
Cash flows from capital and related financing activities	
Acquisition of capital assets	(9,496)
Cash flows from investing activities	
Receipt of interest income	3,556
Increase in certificates of deposit	(643)
Proceeds from sale of equipment	<u>100</u>
	<u>3,013</u>
Net change in cash equivalents	(102,832)
Cash and cash equivalents - June 30, 2016	<u>1,057,842</u>
Cash and cash equivalents - June 30, 2017	<u>\$ 955,010</u>
Reconciliation of operating income to net cash flows from operating activities	
Operating income	\$ (108,946)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	26,383
Changes in assets and liabilities:	
Decrease in other assets	(4,794)
Decrease in account payable - trade	(4,652)
Decrease in accrued vacation	(5,690)
Increase in unearned revenue	<u>1,350</u>
Net cash used by operating activities	<u>\$ (96,349)</u>

See Independent Auditors' Report and Notes to Financial Statements

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Board was established by the North Carolina General Assembly as an occupational licensing board to maintain standards for the practice of physical therapy in North Carolina.

Financial Reporting Entity

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

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

Basis of Presentation

The statement of net position reflects all assets including long-term assets, and all obligations including long-term obligations.

The statement of revenues, expenses and changes in net position presents a comparison between direct expenses and program revenues of the Board. Primary revenues include fees and other charges paid by the recipients of services.

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, the Board's accounts are maintained during the year using the modified accrual basis of accounting. However, at year-end, financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash flows take place.

Use of Estimates

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

Cash Equivalents

The Board considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Deferred Inflows of Resources

Unearned revenues consist principally of license fees paid by applicants prior to taking exams.

Capital Assets

Capital assets are defined by the Board as assets with an initial individual cost of \$500 or more and an estimated useful life of more than two years. Purchased assets are reported at cost. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are expensed.

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A (CONTINUED)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5-10 years
Computer equipment	3 years

Accrued Vacation

The vacation leave policy of the Board provides for accumulation of earned vacation leave with such leave being fully vested when earned. Because vacation leave is payable to employees at termination, a liability for the outstanding balances has been recorded. That portion of accrued vacation that is estimated to be used in the next fiscal year has been designated as a current liability in the financial statements (first-in, first-out method of using accumulated time).

Net Position

Net positions in the financial statements are classified as invested in capital assets and unrestricted.

NOTE B DEPOSITS AND INVESTMENTS

The Board maintains cash balances, money market accounts and certificates of deposit at several financial institutions in Durham, North Carolina. Certificates of deposit have a book and market value of \$444,679 at June 30, 2017. Certificates of deposit have varying interest rates and staggered maturities over the next 18 months.

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE B (CONTINUED)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Board’s deposits may not be returned to it. The Board does not have a formal deposit policy for custodial credit risk. As of June 30, 2017, the Board’s deposits of \$1,399,689 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized - \$223,110

NOTE C CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2017 were as follows:

	ASSET			
	<u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Furniture	\$ 44,172			\$ 44,172
Equipment	10,775	4,584	4,469	10,890
Computer Equipment	<u>134,955</u>	<u>4,912</u>	<u>16,433</u>	<u>123,434</u>
	<u>\$189,902</u>	<u>\$9,496</u>	<u>\$ 20,902</u>	<u>\$178,496</u>

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE C (CONTINUED)

	DEPRECIATION			
	<u>June 30, 2016</u>	<u>Current Expense</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Furniture	\$ 35,806	\$ 2,676		\$ 38,482
Equipment	10,527	394	4,469	6,452
Computer Equipment	<u>76,945</u>	<u>23,013</u>	<u>14,198</u>	<u>85,760</u>
	<u>\$ 123,278</u>	<u>\$26,083</u>	<u>\$ 18,667</u>	<u>\$130,694</u>

NOTE D ACCRUED VACATION

The changes in accrued vacation are as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Used</u>	<u>June 30, 2017</u>
Amount	\$83,849	\$29,940	\$35,630	\$78,159

The amount representing the current portion of vacation leave is \$29,565.

NOTE E RETIREMENT PLAN

The North Carolina Licensing Boards Retirement Plan is a multiple-employer, cost-sharing defined contribution plan. Participating employees must contribute 6% of their gross pay and the board matches those contributions 100%. Employee's contributions are 100% vested; the Board's matching contributions are 100% vested after 5 years of credited service. The Board contributed a 6% matching share (\$36,762) on behalf of its employees.

NORTH CAROLINA BOARD OF PHYSICAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE F LEASE OBLIGATIONS

The Board leases office space and office equipment through operating leases under which future minimum rentals are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2018	45,167
2019	10,967
2020	4,127
Thereafter	<u>1,032</u>
	<u>\$61,293</u>

NOTE G NET POSITION

The Board has assigned portions of its unrestricted net position for the following purposes:

Designated	
Information technology reserve	\$ 100,000
Replacement of property & equipment	100,000
Continuing education	50,000
Possible future building acquisition	735,000
Unanticipated litigation costs	<u>850,000</u>
	<u>1,835,000</u>
Undesignated	<u>(553,526)</u>
	<u>\$1,281,474</u>

NOTE H LITIGATION

In September 2015, the North Carolina Acupuncture Licensing Board (NCALB) filed a lawsuit against the North Carolina Board of Physical

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H (CONTINUED)

Therapy Examiners (NCBPTE). The Acupuncture Licensing Board contends that dry needling treatments performed by physical therapists subject physical therapists to licensure requirements of the Acupuncture Board. The lawsuit does not seek any monetary relief. The Physical Therapy Board has retained a law firm to defend the Board in this case. This lawsuit was dismissed on April 26, 2016. The NCALB then requested a declaratory ruling from the NCBPTE. The NCBPTE issued its declaratory ruling on June 28, 2016. The NCALB then sought judicial review of the declaratory ruling. That litigation is ongoing.

NOTE I SUBSEQUENT EVENTS

The Board has evaluated subsequent events through September 14, 2017, the date which the financial statements were available to be issued.



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**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**

To The Board of Directors
North Carolina Board of Physical Therapy Examiners
Durham, North Carolina

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Board of Physical Therapy Examiners (Board) as of and for the year ended June 30, 2017 and the related notes to the financial statements and have issued our report thereon dated September 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board's internal control over financial reporting 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 the 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 significant deficiencies or material weaknesses. 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 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*.

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.

GARRETT, DODD & ASSOCIATES, LTD.

Garrett, Dodd & Associates, Ltd.

Durham, North Carolina
September 14, 2017