

**NORTH CAROLINA BOARD OF
PHYSICAL THERAPY EXAMINERS**

FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015 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, 2015, 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, 2015, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 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.

Sanett, Dodd & Associates, Ltd.

Durham, North Carolina
October 30, 2015

NORTH CAROLINA BOARD OF PHYSICAL THERAPY EXAMINERS
STATEMENT OF NET POSITION
ENTERPRISE FUND
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents (Note B)	\$ 1,961,883
Certificates of deposit (Note B)	<u>443,352</u>
Total Current Assets	2,405,235

Noncurrent Assets:

Capital assets (Note C)

Furniture	42,604
Equipment	11,517
Computer equipment	<u>109,528</u>
	163,649
Less accumulated depreciation	<u>104,291</u>

59,358

Other Assets

750

Total Noncurrent Assets 60,108

Total Assets 2,465,343

LIABILITIES

Current Liabilities:

Accounts payable - trade	24,471
Accrued vacation (Note D)	<u>39,928</u>
Total Current Liabilities	64,399

Long-Term Liabilities:

Accrued vacation (Note D)	<u>43,644</u>
Total Liabilities	<u>108,043</u>

DEFERRED INFLOWS OF RESOURCES:

Unearned revenue	<u>47,100</u>
Total Liabilities and Deferred Inflows	155,143

NET POSITION

Invested in capital assets	59,358
Unrestricted (Note G)	<u>2,250,842</u>
Total Net Position	<u>\$2,310,200</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, 2015

OPERATING REVENUES

Charges for services:	
Renewal fees	\$ 933,040
License, revival, transfer and other fees	209,250
Disciplinary reimbursements	4,102
Other revenues	<u>9,618</u>

Total operating revenues	1,156,010
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OPERATING EXPENSES

Staff salaries	560,189
Payroll tax expense	41,724
Retirement contributions (Note E)	32,423
Board members and other travel	
per diem, subsistence and registration	47,573
Legal and investigation (Note H)	147,311
Telephone	13,272
Postage	10,782
Newsletter and directory printing	9,053
Office supplies	16,619
Computer supplies and support	10,433
Professional fees	13,840
Group insurance	126,786
Insurance	2,603
Membership dues	4,400
Credit card transaction fees	29,274
Equipment rent (Note F)	13,959
Rent (Note F)	38,058
Utilities and other office expenses	8,785
Temporary labor	17,743
Chemical impairment program costs	3,500
Depreciation	<u>16,701</u>

Total operating expenses	<u>1,165,028</u>
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Operating income	\$ (9,018)
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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, 2015

NONOPERATING REVENUES (EXPENSES):

Interest income	\$ 6,532
Loss on sale of equipment	<u>(4,582)</u>
	<u>1,950</u>
 Change in net position	 (7,068)
 Net position June 30, 2014	 <u>2,317,268</u>
 Net position June 30, 2015	 <u><u>\$ 2,310,200</u></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, 2015

Cash flows from operating activities:	
Cash received from licensees and applicants	\$ 1,142,290
Cash received from others	13,720
Cash paid to employees and professionals	(731,575)
Cash paid to suppliers	<u>(402,226)</u>
Net cash flows from operating activities	22,209
Cash flows from capital and related financing activities	
Acquisition of capital assets	(17,603)
Cash flows from investing activities	
Receipt of interest income	6,532
Increase in certificates of deposit	(780)
Proceeds from sale of equipment	<u>100</u>
	<u>5,852</u>
Net change in cash equivalents	10,458
Cash and cash equivalents - June 30, 2014	<u>1,951,425</u>
Cash and cash equivalents - June 30, 2015	<u>\$ 1,961,883</u>
Reconciliation of operating income to net cash flows from operating activities	
Operating income	\$ (9,018)
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation	16,701
Changes in assets and liabilities:	
Increase in account payable - trade	3,868
Increase in accrued vacation	7,508
Increase in unearned revenue	<u>3,150</u>
Net cash provided by operating activities	<u>\$ 22,209</u>

See Independent Auditors' Report and Notes to Financial Statements

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 assets reflects all assets including long-term assets, and all obligations including long-term obligations.

The statement of revenues, expenses and changes in fund net assets 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, 2015

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, 2015

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 \$443,352 at June 30, 2015. Certificates of deposit have varying interest rates and staggered maturities over the next 12 months.

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, the Board's deposits of \$2,405,235 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized - \$682,631

NOTE C CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2015 were as follows:

	ASSET			
	June 30, <u>2014</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2015</u>
Furniture	\$ 42,604			\$ 42,604
Equipment	11,517			11,517
Computer Equipment	<u>133,527</u>	<u>\$17,603</u>	<u>\$ 41,602</u>	<u>109,528</u>
	<u>\$187,648</u>	<u>\$17,603</u>	<u>\$ 41,602</u>	<u>\$163,649</u>

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE C (CONTINUED)

DEPRECIATION

	<u>June 30,</u> <u>2014</u>	<u>Current</u> <u>Expense</u>	<u>Retirements</u>	<u>June 30,</u> <u>2015</u>
Furniture	\$ 31,547	\$ 2,169		\$ 33,716
Equipment	10,919	185		11,104
Computer Equipment	<u>82,045</u>	<u>14,347</u>	<u>\$36,921</u>	<u>59,471</u>
	<u>\$ 124,511</u>	<u>\$16,701</u>	<u>\$36,921</u>	<u>\$104,291</u>

NOTE D ACCRUED VACATION

The changes in accrued vacation are as follows:

	<u>June 30,</u> <u>2014</u>	<u>Additions</u>	<u>Used</u>	<u>June 30,</u> <u>2015</u>
Amount	\$76,064	\$61,433	\$53,925	\$83,572

The amount representing the current portion of vacation leave is \$39,928.

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 (\$32,423) on behalf of its employees.

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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>
2016	\$ 48,008
2017	45,167
2018	45,167
2019	10,967
2020	4,127
Thereafter	<u>1,032</u>
	<u>\$154,468</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>350,000</u>
	<u>1,335,000</u>
Undesignated	<u>915,842</u>
	<u>\$2,250,842</u>

NOTE H LITIGATION

In September 2015, the North Carolina Acupuncture Licensing Board filed a lawsuit against the North Carolina Board of Physical Therapy Examiners.

NORTH CAROLINA BOARD OF PHYSICAL
THERAPY EXAMINERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE H (CONTINUED)

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

NOTE I SUBSEQUENT EVENTS

The Board has evaluated subsequent events through October 30, 2015, 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, 2015 and the related notes to the financial statements and have issued our report thereon dated October 30, 2015.

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
October 30, 2015



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October 30, 2015

Board of Directors
North Carolina Board of Physical Therapy Examiners

We have audited the financial statements of the North Carolina Board of Physical Therapy Examiners for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Carolina Board of Physical Therapy Examiners are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Board's financial statements were:

Management's estimate of the depreciable lives of capital assets (i.e. equipment and computers). We evaluated the key factors and assumptions used to develop the useful lives and determined that they were reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the North Carolina Board of Physical Therapy Examiners and is not intended to be and should not be used by anyone other than these specified parties.

Garrett, Dodd & Associates, Ltd.
GARRETT, DODD & ASSOCIATES, LTD.

Durham, North Carolina