

Report No. 2006-24

August 31, 2006



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

# Secretary of State Audit Report

State of Oregon

**State Board of Massage Therapists**

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

Contract Auditor: Merina & Company, LLP

State of Oregon

**State Board of Massage Therapists**

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

OFFICE OF THE  
SECRETARY OF STATE  
Bill Bradbury  
Secretary of State



AUDITS DIVISION  
Charles A. Hibner  
Director

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*Auditing for a Better Oregon*

The Honorable Theodore R. Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97301

The Board of Directors  
State Board of Massage Therapists  
748 Hawthorne Avenue NE  
Salem, Oregon 97301

This report contains audited financial statements of the State Board of Massage Therapists, a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2005, and a report on its internal control over financial reporting and on compliance with applicable laws, regulations and contracts. The audit was performed by Merina & Company, LLP for the Secretary of State Audits Division.

OREGON AUDITS DIVISION

A handwritten signature in blue ink, appearing to read "C.A. Hibner", is written over a light blue rectangular background.

Charles A. Hibner, CPA  
Director

**STATE BOARD OF MASSAGE THERAPISTS**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY DATA**

For the Biennium Ended

June 30, 2005

with

Independent Auditors' Report

**MERINA**  
& COMPANY, LLP

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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5499 AMY STREET • WEST LINN, OR 97068

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State Board of Massage Therapists  
For the Biennium Ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
State Board of Massage Therapists  
748 Hawthorne Avenue NE  
Salem, Oregon 97301

Charles A. Hibner, Director  
Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, Oregon 97310

We have audited the accompanying financial statements of the governmental activities, and the special revenue fund of the State Board of Massage Therapists, a semi-independent agency of the State of Oregon, as of and for the two years ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the State Board of Massage Therapists' management. Our responsibility is to express an 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the State Board of Massage Therapists as of June 30, 2005, and the respective changes in financial position, and the respective budgetary comparison statement for the special revenue fund for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2006 on our consideration of the State Board of Massage Therapists' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report is separately presented in the Other Reports section as listed in the table of contents.

  
Merina & Company, LLP  
West Linn, Oregon  
June 5, 2006

**STATE BOARD OF MASSAGE THERAPISTS**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005**

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	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 314,172
Prepaid	<u>3,465</u>
Total assets	<u><u>\$ 317,637</u></u>
 <b>LIABILITIES:</b>	
Accounts payable	\$ 4,921
Compensated absences	<u>4,803</u>
Total liabilities	<u>9,724</u>
 <b>NET ASSETS:</b>	
Unrestricted	<u>307,913</u>
Total net assets	<u>307,913</u>
Total liabilities and net assets	<u><u>\$ 317,637</u></u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF MASSAGE THERAPISTS**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF ACTIVITIES**  
**For the Biennium Ended June 30, 2005**

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	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
<b>EXPENSES:</b>		
Governmental activities:		
Licensing	\$ 793,194	\$ (793,194)
Total program expenses		<u>(793,194)</u>
<b>GENERAL REVENUES:</b>		
General revenues:		
Licenses and fees		747,560
Civil penalties		15,173
Interest income		394
Other income		575
Total general revenues		<u>763,702</u>
Change in net assets		(29,492)
<b>NET ASSETS, BEGINNING</b>		326,840
<b>PRIOR PERIOD ADJUSTMENT</b>		<u>10,565</u>
<b>NET ASSETS, ENDING</b>		<u><u>\$ 307,913</u></u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF MASSAGE THERAPISTS**  
**(A Semi-Independent Agency of the State of Oregon)**  
**BALANCE SHEET - GOVERNMENTAL FUND**  
**June 30, 2005**

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	Total Governmental Fund
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 314,172
Prepaid expenses	<u>3,465</u>
Total assets	<u><u>\$ 317,637</u></u>
<b>LIABILITIES AND FUND BALANCE:</b>	
Accounts payable	\$ 4,921
Compensated absences	<u>4,803</u>
Total liabilities	<u>9,724</u>
<b>FUND BALANCE:</b>	
Unreserved	307,913
Total fund balance	<u>307,913</u>
Total liabilities and fund balance	<u><u>\$ 317,637</u></u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF MASSAGE THERAPISTS  
 (A Semi-Independent Agency of the State of Oregon)  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCE - GOVERNMENTAL FUND  
 For the Biennium Ended June 30, 2005**

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	Total Governmental Fund
<b>REVENUES:</b>	
License and fees	\$ 747,560
Civil penalties	15,173
Interest income	394
Other income	575
	<hr/>
Total revenues	763,702
	<hr/>
<b>EXPENDITURES:</b>	
Personal services	407,409
Service and supplies	385,785
	<hr/>
Total expenditures	793,194
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Revenues over (under) expenditures	(29,492)
<b>FUND BALANCE, BEGINNING</b>	326,840
<b>PRIOR PERIOD ADJUSTMENT</b>	10,565
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<b>FUND BALANCE, ENDING</b>	<u>\$ 307,913</u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF MASSAGE THERAPISTS**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Biennium Ended June 30, 2005**

	Biennial Budget		Actual			Variance
	Original	Final	FY 2004	FY 2005	Biennial	Positive (Negative)
<b>REVENUES:</b>						
License and fees	\$ 623,060	\$ 623,060	\$ 161,521	\$ 586,039	\$ 747,560	\$ 124,500
Civil penalties	-	-	-	15,173	15,173	15,173
Interest income	-	-	202	192	394	394
Other income	3,500	3,500	570	5	575	(2,925)
Total revenues	626,560	626,560	162,293	601,409	763,702	137,142
<b>EXPENDITURES:</b>						
Personal services	406,608	406,608	196,164	211,245	407,409	(801)
Service and supplies	289,575	383,998	159,653	226,132	385,785	(1,787)
Total expenditures	696,183	790,606	355,817	437,377	793,194	(2,588)
Revenues over (under) expenditures	(69,623)	(164,046)	(193,524)	164,032	(29,492)	134,554
<b>FUND BALANCES, BEGINNING</b>	197,404	197,404	326,840	143,881	326,840	129,436
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	10,565	-	10,565	10,565
<b>FUND BALANCES, ENDING</b>	<u>\$ 127,781</u>	<u>\$ 33,358</u>	<u>\$ 143,881</u>	<u>\$ 307,913</u>	<u>\$ 307,913</u>	<u>\$ 274,555</u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF MASSAGE THERAPISTS  
(A Semi-Independent Agency of the State of Oregon)  
NOTES TO FINANCIAL STATEMENTS  
For the Biennium Ended June 30, 2005**

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***NATURE OF THE ORGANIZATION***

The State Board of Massage Therapists' (the Board) mission is to protect the people of the State of Oregon from the dangers of unqualified and improper practice of professional massage therapy. The Board prescribes qualifications for the practice of professional massage therapy, setting standards for the examination of applicants for licensure, continuing education, and enforcement of the laws and regulations governing the practice of professional massage therapy. The Board issues licenses to those who do qualify, and has the authority to revoke licenses and assess civil penalties against unregistered individuals practicing professional massage therapy without authority and against those licensed professionals practicing improperly.

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

***Reporting Entity***

The State Board of Massage Therapists is a semi-independent agency of the State of Oregon. The Board operates under Oregon Revised Statutes (ORS) Chapter 687. The Board consists of seven members appointed by the governor for four-year terms. Four members are licensed massage therapists, and three members are public citizens. The Board examines applicants for licensure and imposes disciplinary proceedings against those who violate statutes. The Board also makes rules and enforces professional standards for the practice of massage therapy in Oregon.

Pursuant to Oregon Senate Bill 1127 adopted in 1999, the Board was granted semi-independent status by the Legislature.

***Basis of Presentation***

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities. The accounts of the Board are organized on the basis of a special revenue fund. Revenues are from license fees, civil penalties and interest income.

***Government-wide Statements***

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include all the financial activities of the Board.

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

**STATE BOARD OF MASSAGE THERAPISTS  
(A Semi-Independent Agency of the State of Oregon)  
NOTES TO FINANCIAL STATEMENTS  
For the Biennium Ended June 30, 2005**

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*Governmental Fund Financial Statements*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available, except for license fees which are recognized when received. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

*Budget*

The Board is required to adopt budgets on a biennial basis. The Board may adopt or modify a budget only after holding a public hearing and must give notice of budget hearings to all licensees.

Unlike most budgets in state government where the agency budgets are enacted into law by the Legislature, the Board's budget is not subject to review and approval by the Legislature or to future modification by the Legislature or the Emergency Board. For this reason, the budgets adopted by the Board are considered to be non-appropriated budgets. The budgetary statement included herein compares the total of annualized non-appropriated budgets for fiscal years 2004 and 2005 to actual expenditures for the two years ended June 30, 2005.

*Cash and Cash Equivalents*

Cash includes cash on hand and demand deposits.

*Supplies*

Supplies are charged as expenditures when purchased.

*Compensated Absences*

Full-time, permanent employees are granted paid time off benefits of varying amounts to specified maximums depending on tenure with the Board.

*Equipment*

Equipment with a cost of more than \$5,000 is depreciated over its useful life. Currently, the Board does not have any equipment with a cost basis greater than \$5,000.

*Licensee Fees*

Licensee fees have been recorded on the cash basis of accounting due to the uncertainty of collections.

**STATE BOARD OF MASSAGE THERAPISTS  
(A Semi-Independent Agency of the State of Oregon)  
NOTES TO FINANCIAL STATEMENTS  
For the Biennium Ended June 30, 2005**

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*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

***CASH AND INVESTMENTS***

*Credit risk*

State Statutes authorize the State Board of Massage Therapists to invest in general obligations of the U.S. Government and its agencies, certain debt obligations of Oregon, California, Washington and Idaho, bank repurchase agreements, bankers' acceptances, and certain corporate debt obligations, among others.

*Concentration of credit risk*

All investments of the Board shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), and ORS 294.145 (Prohibited conduct for custodial officer). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this investment policy immediately upon being enacted.

*Custodial credit risk – deposits*

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. As of June 30, 2005, the Board's bank balance was \$330,539. Of this amount, \$100,000 was covered by Federal Depository Insurance. The remaining balance of \$230,539 was covered by a collateral certificate held in the pledging financial institution's trust department or agent, in the Board's name.

**STATE BOARD OF MASSAGE THERAPISTS  
(A Semi-Independent Agency of the State of Oregon)  
NOTES TO FINANCIAL STATEMENTS  
For the Biennium Ended June 30, 2005**

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***PENSION PLAN***

*Oregon Public Employee Retirement System (PERS)*

Employees who were plan members before August 29, 2003, participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board (PERB) under the guidelines of Oregon Revised Statutes, Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits.

The Board is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate for employees at fiscal year 2005 was 4.71%.

*Oregon Public Service Retirement Plan (OPSRP)*

The pension program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP). The pension program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. The pension program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than \$200 or the monthly death benefit payable to the beneficiary of a deceased member is less than \$200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The Board is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate for employees at fiscal year 2005 was 8.04%.

*The Individual Account Program (IAP)*

IAP is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. Covered employees are required by State statute to contribute 6% of their salary to the plan. Current law requires employers that had been

**STATE BOARD OF MASSAGE THERAPISTS  
(A Semi-Independent Agency of the State of Oregon)  
NOTES TO FINANCIAL STATEMENTS  
For the Biennium Ended June 30, 2005**

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paying the member contributions into PERS to pay employee contributions to the IAP until at least December 31, 2005.

The Board contributions to PERS and OPSRP for the two years ended June 30, 2005 was \$29,579, and the amount contributed for the three years ended June 30, 2003 was \$56,267. Total contributions were equal to the required contributions for all five years.

During the biennium, Oregon General Obligation Pension Bonds were issued to fund the States' share of the Unfunded Actuarial Liability and \$2 billion was delivered directly to PERS. Over the next 24 years the state will be obligated to make the principal and interest payments on the pension obligation bonds. All benefiting agencies are charged the same rate to pay this debt service, which fluctuated during this biennium. The amount paid by the Board for the two years ended June 30, 2005 was \$8,396.

***EMPLOYEE LEAVE***

Sick leave is earned at the rate of eight hours per month with no maximum limit. Accumulated sick leave at June 30, 2005 can be used in case of an employee's extended illness or injury. When the employee retires, any sick leave accrual terminates and no compensation made for such hours. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Vacation time is earned, subject to a maximum accumulation of 250 to 350 hours depending on employee classification, at a rate of eight hours per month to 17.34 hours per month depending on employee classification and length of service. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based on current salary rates, was \$4,803 at June 30, 2005.

***INSURANCE***

Insurance programs are administered for the Board by the Risk Management Division of the Oregon Department of Administrative Services, which provides insurance coverage to all state agencies with a blanket honesty and faithful performance bond, general liability and vehicle liability self-insurance, and self-insurance property damage program.

The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based upon its share of services provided in a prior period.

***LEASE COMMITMENT***

The Board leases its building space from Adair Properties, LLC under a seven year lease expiring on June 31, 2010. Total lease payments for the year ended June 30, 2005 were \$24,655. The lease specifies a base rent of \$2,006 per month, increased annually for the

**STATE BOARD OF MASSAGE THERAPISTS**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2005**

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increase in the Portland-Salem area CPI (with the amount of increase capped at 4% per year). Minimum payments under the lease for the next five years are as follows

<u>Year Ended June 30</u>	<u>Amounts</u>
2006	\$ 24,077
2007	24,708
2008	25,350
2009	26,009
2010	<u>26,685</u>
Total	<u>\$ 126,829</u>

***RELATED PARTY TRANSACTIONS***

The Board entered into transactions with the Board's chairperson for examiner services. Payments were made at the same hourly rate paid to other individuals for the same services. During the biennium ended June 30, 2005, payments to the Board's chairperson totaled \$9,392. There were no amounts payable to the Board chairperson for these transactions as of June 30, 2005.

***PRIOR PERIOD ADJUSTMENT***

An error was discovered in cash in the amount of \$10,565, which was incorrectly included as a reconciling item on the bank reconciliation. The effect of this error increased net assets by \$10,565.

**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***

Board of Directors  
Oregon Board of Massage Therapists  
748 Hawthorne Avenue NE  
Salem, Oregon 97301

Charles A. Hibner, Director  
State Audits Division  
255 Capitol Street NE, Suite 500  
Salem, Oregon 97310

We have audited the financial statements of the State Board of Massage Therapists as of and for the two years ended June 30, 2005, and have issued our report thereon dated June 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Board of Massage Therapists' financial statements are free of material misstatement, we performed tests of their 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the State Board of Massage Therapists, in a separate letter dated June 5, 2006.

This report is intended solely for the information and use of the State Board of Massage Therapists, the Governor of the State of Oregon, and Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

  
Merina & Company, LLP  
West Linn, Oregon  
June 5, 2006

# **ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

## **Directory of Key Officials**

Director	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

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***Auditing to Protect the Public Interest and Improve Oregon Government***