

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



State of Oregon Board of Massage Therapists A Semi-Independent Agency For the Biennium Ended June 30, 2009

Contract Auditor: Moss Adams LLP

STATE OF OREGON
BOARD OF MASSAGE THERAPISTS
INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS
(With Supplemental Information)

FOR THE BIENNIUM ENDED

JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Oregon Board of Massage Therapists

We have audited the accompanying financial statements of the governmental activities and the general fund of the Oregon Board of Massage Therapists (the Board), a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Board's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in financial position of the governmental activities and the general fund of the Oregon Board of Massage Therapists, as of June 30, 2009, and for the biennium then ended in conformity with accounting principles generally accepted in the United States of America.

The Oregon Board of Massage Therapists has not presented management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America have determined is necessary to supplement, but is not required, to be part of the basic financial statements. The budgetary comparison information on page 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2010, on our consideration of the Oregon Board of Massage Therapists' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit. That report is separately presented in the Other Reports section as listed in the table of contents.



Eugene, Oregon
March 18, 2010

STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET – GENERAL FUND
STATEMENT OF NET ASSETS
JUNE 30, 2009

	General Fund	Adjustments (Note 3)	Statement of Net Assets
ASSETS:			
Cash and cash equivalents	\$ 407,785	\$ -	\$ 407,785
Receivables, net	40,550	-	40,550
Prepaid assets	-	5,248	5,248
Capital assets	-	27,393	27,393
	<u>448,335</u>	<u>32,641</u>	<u>480,976</u>
LIABILITIES			
Compensated absences	\$ -	\$ 28,754	\$ 28,754
Deferred revenue	40,550	(40,550)	-
Pension obligation	-	27,522	27,522
	<u>40,550</u>	<u>15,726</u>	<u>56,276</u>
FUND BALANCE			
Unreserved	407,785	(407,785)	-
	<u>407,785</u>	<u>(407,785)</u>	<u>-</u>
Total fund balance	407,785	(407,785)	-
Total liabilities and fund balance	<u>\$ 448,335</u>		
NET ASSETS			
Invested in capital assets, net of related debt		27,393	27,393
Unrestricted		397,307	397,307
		<u>\$ 424,700</u>	<u>\$ 424,700</u>

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE / STATEMENT OF ACTIVITIES
FOR THE BIENNIUM ENDED JUNE 30, 2009**

	<u>General Fund</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities</u>
REVENUES			
Licenses and fees	\$ 1,145,889	\$ -	\$ 1,145,889
Civil penalty fines	66,268	40,550	106,818
Interest income	97	-	97
	<u>1,212,254</u>	<u>40,550</u>	<u>1,252,804</u>
EXPENDITURES/EXPENSES			
Personal services	632,128	30,389	662,517
Service and supplies	531,320	18,264	549,584
	<u>\$ 1,163,448</u>	<u>\$ 48,653</u>	<u>\$ 1,212,101</u>
Excess of revenues over expenditures	<u>48,806</u>	<u>(8,103)</u>	<u>40,703</u>
CHANGE IN FUND BALANCE/NET ASSETS	<u>\$ 48,806</u>	<u>\$ (8,103)</u>	<u>\$ 40,703</u>
NET CHANGE IN FUND BALANCE/NET ASSETS			
Fund balance /Net assets - June 30, 2007	<u>\$ 358,979</u>	<u>\$ 25,018</u>	<u>\$ 383,997</u>
Fund balance /Net assets - June 30, 2009	<u><u>\$ 407,785</u></u>	<u><u>\$ 16,915</u></u>	<u><u>\$ 424,700</u></u>

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 1 - 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, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity - The State Board of Massage Therapists is a semi-independent agency of the State of Oregon and a related organization to 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, 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 governmental fund, consisting of one general fund.

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.

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, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 biennium budget to actual expenditures for biennium ending June 30, 2009.

Fund balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific future use. Fund balance reported as of June 30, 2009 was unreserved.

Net assets - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Board or through external restriction imposed by creditors, grantors, laws, or regulation of other governments.

Cash and cash equivalents - Cash includes cash on hand and demand deposits.

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. Depreciation is computed on the straight-line method over the estimated useful life. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal.

Civil penalties - The Board is authorized under state laws to impose civil penalties to enforce certain provisions and professional standards.

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.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Balance Sheet - General Fund / Statement of Net Assets - The governmental fund balance sheet includes reconciliations between the fund balance and net assets as reported in the government wide statement of net assets for the following:

Prepaid expenses are not financial assets in governmental funds, but are reported in the statement of net assets:	\$	5,248
Capital Assets are not financial resources in governmental funds, but are reported in the statement of net assets:	\$	27,393
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds:		
Compensated absences	\$	28,754
Pension obligation	\$	27,522
Certain imposed civil penalties will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in governmental funds:	\$	(40,550)

Statement of Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities - The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between the government-wide statement of activities for the following:

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds:		
Change in civil penalty receivables, net	\$	40,550
Change in prepaid assets	\$	(5,248)
Change in compensated absences		8,115
Change in pension obligation		27,522
	<u>\$</u>	<u>30,389</u>

Governmental funds report capital outlays as expenditures; in the statement of activities the cost of those assets is allocated over their estimated useful lived as depreciated expense:

Depreciation	\$	18,264
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STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 4 - CASH AND CASH EQUIVALENTS

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, banker's 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 294.135), ORS 284.135 (Investment maturity dates), and ORS 294.145 (Prohibited conduct for custodial officer). Any revisions or extensions of the ORS shall be assumed to be part of this investment policy immediately upon being enacted.

Custodial credit risk - deposits - HB 2901, which passed during the 2007 Legislative Session, significantly revised ORS 295 (Depositories of Public Funds and Securities) which governs the collateralization of public funds deposits. The changes streamline the collateralization process and eliminate the need to request and maintain certificates of participation. The Bill created a shared liability structure of the qualified depositories. Under the new law, government entities no longer have to request and maintain the issuance of certificates of participation for balances over the FDIC insured amount when using a qualified depository. Government entities only need to verify that the bank they use as a depository appears on the list of qualified depositories with the State Treasurers Department. The Board's funds depository institution is U.S. Bank and appears on the State Treasurer Department's list of qualified depositors.

NOTE 5 - RECEIVABLES

As described in Note 1, the Board is authorized under state laws to impose civil penalties to enforce certain provisions and professional standards related to massage therapy certifications and licensures. Civil penalties receivables as of June 30, 2009 consist of the following:

Civil penalties imposed by Board	\$ 523,228
Less allowance for uncollectible accounts	<u>(482,678)</u>
Total receivables	<u><u>\$ 40,550</u></u>

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 6 - CAPITAL ASSETS

The following is a summary of changes in the Board's capital assets during the biennium ended June 30, 2009:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
<i>Depreciable assets</i>				
Database	\$ 54,789	\$ -	\$ -	\$ 54,789
Accumulated depreciation	(9,132)	(18,264)	-	(27,396)
Net fixed assets	<u>\$ 45,657</u>	<u>(18,264)</u>	<u>\$ -</u>	<u>\$ 27,393</u>

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan description - The Board is a participating employer in the Oregon Public Employees Retirement System (PERS). Board employees hired after August 28, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP). Employees hired on or before this date are PERS members. All Board employees who work over 600 hours per year are eligible to participate in the plans after completing six months of employment with a PERS/OPSRP covered employer. Both plans require actuarially determined contributions from the employer and an employee contribution of six percent of covered salary. The Board pays the employee's contribution as allowed by law. Both plans are administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238 and 238A. Both plans provide retirement benefits and cost-of-living adjustments, as well as disability, post-employment healthcare, and death benefits to plan members and beneficiaries. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Public Employees Retirement System (PERS) - PERS plan members also participate in a cost-sharing multiple-employer defined benefit pension plan. The Board is required by statute to contribute actuarially computed amounts as determined by the PERS Board. The rates are subject to change as a result of subsequent actuarial valuations.

Oregon Public Service Retirement Plan (OPSRP) - OPSRP is a cost-sharing multiple-employer defined benefit and defined contribution pension plan created by the Oregon Legislative Assembly in 2003 as a successor plan for PERS.

- The defined benefit pension plan is provided to members who were hired on or after August 29, 2003. Employer contributions are required by state statute and are made at actuarially determined rates as adopted by the PERS Board.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

- The defined contribution pension plan (called the Individual Account Program or IAP) is provided to all members or their beneficiaries who are PERS or OPSRP eligible. State statutes require covered employees to contribute 6% of their annual covered salary to the IAP plan effective January 1, 2004. PERS members retain their existing PERS accounts; however, member contributions have been deposited in the member's IAP since the beginning of 2004 rather than into the member's PERS account.

Other charges - 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 23 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. The rate is applied to subject salaries and during this biennium the rate fluctuated from 6.20% at the beginning of the biennium to 5.95%. The Board's total Oregon General Obligation Pension Bond expense for the biennium ended June 30, 2009 was \$24,740, and is included in the Board's annual pension cost described in the table below.

Annual pension cost - Contributions actually made are equivalent to the annual pension cost. The Board's contributions were equal to the annually required contributions. The following table presents three-year information related to funding of the Board's pension plans:

	2006/2007	2007/2008	2008/2009
Board contribution rates - PERS	10.80%	8.00%	8.00%
Bond debt contribution rate - PERS	6.20%	5.95%	5.95%
Employee contribution paid by Board	6.00%	6.00%	6.00%
Payroll covered by PERS	\$ 150,033	\$ 188,485	\$ 219,218
Annual pension cost and bond assessment	\$ 34,429	\$ 37,889	\$ 44,583

Actuarial assumptions - Required contributions are determined using the projected unit credit actuarial cost method. Under this method, the Tier 1/Tier 2 regular UAL and Retiree Healthcare UAL as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed 20-year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years from the odd-year valuation in which they are first recognized. Amortization of a change in Tier 1/Tier 2 UAL and Retiree Healthcare UAL due to a change in the actuarial cost method is amortized as a level percentage of combined valuation over a rolling three-year period. Contributions are credited toward the payment of this change in UAL beginning July 1, 2007.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

For OPSRP UAL, amortization for gains and losses between odd-year valuations are amortized as a level percentage of combined payrolls over 16 years from the odd-year valuation in which they are first recognized. The actuarial value of PERS assets is reported at fair market value. In order to reduce year-to-year volatility in contribution requirements due to changes in asset value, new contribution rates are confined to a collar based on the prior contribution rate. New contribution rates will not increase or decrease by more than the greater of three percentage points or 20 percent of the current rate. If the funded percentage drops below 80% or increases above 120%, the size of the collar doubles.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT PLANS

The Board's employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefit Plans (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) as established by Oregon Revised Statutes (ORS) 238.410 and the Public Employees Benefit Board (PEBB) as established by ORS 243.302. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Retirement Health Insurance Account - The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer OPEB plan which provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must have eight years of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, receive both Medicare parts A and B coverage, and enroll in a PERS sponsored health insurance plan. The Board is required by statutes to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as the result of subsequent actuarial valuations. The rate of each covered employee's salary for the biennium ended June 30, 2009 was .26%.

Retiree Health Insurance Premium Account - The Retiree Health Insurance Premium Account (RHIPA) is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the PERS Board and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving disability pension calculated as if they had eight or more years of qualifying services, but are not eligible for federal Medicare coverage. The Board is required to contribute actuarially computed amounts as determined by PERS. Rates are subject to changes as the result of subsequent actuarially determined valuations. The rate of each covered employee's salary for the biennium ended June 30, 2009 was .03%.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Board contributions to the plans for the years ended June 30, 2007, 2008 and 2009 were \$956, \$546, and \$648 respectively, equal to the required contributions each year.

NOTE 9 - 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 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.

NOTE 10 - EMPLOYEE LEAVE

Sick leave is earned at the rate of eight hours per month with no maximum limit. Accumulated sick leave at June 30, 2009 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 is made for such hours. No liability is recorded for non-vesting accumulating right to receive sick pay benefits.

Vacation time is earned, subject to a maximum accumulation to 300 hours, at a rate of eight hours per month to eighteen hours per month depending on 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 \$6,740 at June 30, 2009.

Executive service and management service employee's paid time off (PTO) is earned in lieu of sick and vacation time for unrepresented employees per the Personnel policy adopted July 2005. Accumulations range from 16 hours per month to 23.3 hours per month based on length of service and accrues to a maximum of 60 days. Hours in excess of the 60 day maximum roll over into a catastrophic sick leave reserve account which can be used for catastrophic illness. All Catastrophic Sick Reserve (CSR) time will cease on the date of an employee's termination. No compensation will be made for accumulated CSR time at termination. Paid time off is vested when earned and recorded as an expenditure. Accumulated PTO for unrepresented employees, based on current salary rates was \$22,014 at June 30, 2009.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 11 - LEASE COMMITMENT

The Board leases its building space from a third party under a seven year operating lease expiring in June, 2010. The lease specifies a base rent of approximately \$2,006 per month, increased annually for the increase in the Portland-Salem area CPI (with the amount of increase capped at 4% per year). Total lease payments for the biennium ended June 30, 2009 was approximately \$52,601. Future minimum payments under the lease are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>Amount</u>
2010	<u>\$ 27,072</u>
Total	<u><u>\$ 27,072</u></u>

NOTE 12 - RELATED PARTY TRANSACTIONS

The Board paid certain examination fees and travel reimbursements to a member of the governing board which acts as an independent contractor on behalf of the agency. These examination and travel reimbursements totaled approximately \$12,000 for the biennium ended June 30, 2009.

REQUIRED SUPPLEMENTAL INFORMATION

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, 2009

	Biennial Budget	Actual			Variance Positive (Negative)
	Original & Final	FY 2008	FY 2009	Biennial	
REVENUES					
License and fees	\$ 1,057,763	\$584,052	\$ 561,837	\$1,145,889	\$ 88,126
Civil Penalties	40,000	24,829	41,440	66,268	26,268
Interest income	-	5	92	97	97
Total revenues	<u>1,097,763</u>	<u>608,886</u>	<u>603,369</u>	<u>1,212,254</u>	<u>114,491</u>
EXPENDITURES					
Personal service	776,829	328,787	303,342	632,128	\$ (144,701)
Service and supplies	510,517	271,115	260,205	531,320	20,803
Total expenditures	<u>1,287,346</u>	<u>599,902</u>	<u>563,547</u>	<u>1,163,448</u>	<u>(123,898)</u>
Revenues over (less than) expenditures	(189,583)	8,984	39,822	48,806	238,389
FUND BALANCE, BEGINNING	<u>358,979</u>	<u>358,979</u>	<u>367,963</u>	<u>358,979</u>	<u>-</u>
FUND BALANCE, ENDING	<u><u>\$ 169,396</u></u>	<u><u>\$367,963</u></u>	<u><u>\$ 407,785</u></u>	<u><u>\$ 407,785</u></u>	<u><u>\$ 238,389</u></u>

OTHER REPORTS

**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***

We have audited the financial statements of the governmental activities and the general fund of the Oregon Board of Massage Therapists, as of and for the year ended June 30, 2009, which collectively comprise the Oregon Board of Massage Therapist's basic financial statements and have issued our report thereon, dated March 18, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon Board of Massage Therapist's internal control over financial reporting as a basis for designing our auditing procedures 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 Oregon Board of Massage Therapists' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Board of Massage Therapists' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oregon Board of Massage Therapists' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Oregon Board of Massage Therapists' financial statements that is more than inconsequential will not be prevented or detected by the Oregon Board of Massage Therapists' internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. These deficiencies are listed as 2009-1, 2009-2 and 2009-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oregon Board of Massage Therapist's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that 2009-1 described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Board of Massage Therapist'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*.

Oregon Board of Massage Therapist's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Oregon Board of Massage Therapists' responses and, accordingly, we express no opinion on them.

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

Moss Adams LLP

Eugene, Oregon
March 18, 2010

STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Financial Statement Findings

2009-1

Condition

The internal control structure of the Board has focused primarily on the objective of effectiveness and efficiency of operations. However, the system of internal control over the objectives of reliability of financial reporting contains certain deficiencies. A key element of financial reporting is the ability of management to select and apply appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles.

Management of the Board maintains accounting records primarily on a cash basis of accounting. Preparation of a GAAP-based financial statement for the Board requires sufficient knowledge about full accrual, modified accrual, and budgetary basis accounting. As a result, certain adjustments were required to be made to the financial statements subsequent to the start of the audit process. Adjustments included the recognition of differences between the government wide financial statements and the fund financial statements. Management required assistance with certain disclosures that included the pension plans and other post employment benefits. Also, as described in the *Independent Auditors Report*, Management has not presented *Management's discussion and analysis* (MD&A) that accounting principles accepted in the United States of America have determined necessary to supplement, the basic financial statements.

The cumulative effect of these observations regarding internal control over the financial close and reporting process could result in a material misstatement of the financial statements; this deficiency is deemed to be a material weakness.

Criteria

To minimize the risk of material errors in the financial statements, management should possess sufficient understanding of the basic reporting requirements as required under generally accepted accounting practices in the United States.

Effect

Lack of internal controls and management education about GAAP significantly increases the risk of material accounting errors in Board financial statements.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009**

Financial Statement Findings (Continued)

Cause

Semi-independent State Boards such as the Oregon Board of Massage Therapists are required to produce GAAP financial statements on a biennium basis. The infrequent nature of financial reporting creates conditions which diminish the significance for possessing a thorough understanding about GAAP reporting requirements.

Recommendations

Management and the Board's governing body should assess the adequacy of the design of its policies and procedures related to preparation of financial statements and design appropriate controls as necessary to rectify inadequacies.

Response

As noted in the auditor report OBMT is not currently preparing financial statements in accordance with GAAP. The Oregon Board of Massage Therapy is consulting with other members of the Semi-Independent Board/Agencies group who face this same issue in order to arrive at a cost effective solution that will allow us to comply with GAAP reporting requirements.

2009-2

Condition

Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls.

Criteria

In order to make the financial reports generated by the accounting system as meaningful as possible, it's considered a best practice that the general ledger accounts for cash are reconciled on a routine, monthly basis.

Effect

Not reconciling the accounts on a routine, monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009**

Financial Statement Findings (Continued)

Cause

Semi-independent agencies consist of small professional staffs which process significant amounts of duties to oversee and administer the various functions of the Board.

Recommendations

We recommend that all bank accounts be reconciled each month and that a member from the Board review the reconciliation on a routine basis in order to provide an additional level of management oversight. We recommend that the additional monthly review of the bank reconciliation be documented and evidenced by a signature and date made by the reviewer.

Response

We agree with the auditor's recommendation and have initiated monthly reconciliation of the bank statements. As a further step we will provide the Board of Directors a copy of the reconciliation at their monthly meeting for review and approval.

2009-3

Condition

The size of the Board's professional staff prohibits complete adherence to the concept of segregation of duties. We noted that other semi-independent boards had a robust board oversight review process implemented which was clearly followed on a monthly routine basis in order to mitigate the risks associated with a lack of segregation of duties and provide an additional level of management oversight. The Oregon Board of Massage Therapists had not fully implemented a comparable Board review process which was followed routinely and thoroughly documented.

Criteria

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009**

Financial Statement Findings (Continued)

Effect

Lack of an effective oversight control to mitigate segregation of duties concerns increases the risk to the Board that errors are not detected on a timely basis or assets are not safeguarded to the best extent possible.

Cause

As previously discussed, the size of the Board's professional staff places a significant amount of duties to administer the functions of the Board. Management was aware of the necessity to implement and improve the Board oversight function and expressed a sincere desire to implement best practices similar to processes other semi-independent agencies were already performing.

Recommendations

We recommend that Management of the Board model a monthly financial oversight reporting routine that is followed on a regular basis similar to the process which other semi-independent agencies have already implemented to mitigate risks of operating with a small professional staff. The financial review procedure could include review of monthly bank reconciliations, monthly internal use only financials, status of collections on civil penalties, copies of checks, and any new agreements/transactions entered into by Management.

Response

We agree in part with the auditor's recommendation. Beginning with the March 8, 2010 board meeting a financial report became a standard board agenda item. The monthly financial statement, bank reconciliation and any significant agreements will be part of the financial documents presented at board meetings. Also, commencing in March 2010 specific fiscal duties within OBMT have been assigned to multiple staff in order to achieve a separation of duties and improve internal control. The Executive Director no longer initiates transactions or calculates payroll but approves and reviews payments. Due to the changes in fiscal responsibility implemented internally bringing check copies to each board meeting does not appear necessary.