

**NORTH DAKOTA BOARD OF MASSAGE  
BISMARCK, ND**

**AUDITED FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

**The Board of Directors  
North Dakota Board of Massage  
PO Box 3141  
Bismarck, ND 58502**

We have audited the accompanying financial statements for the business-type activities of the North Dakota Board of Massage as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the North Dakota Board of Massage's basic financial statements as listed in the table of contents.

### **Management's Responsibilities 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 controls 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 audit 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 business-type activities of the North Dakota Board of Massage as of June 30, 2017 and 2016, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018, on our consideration of the North Dakota Board of Massage'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Board of Massage's internal control over financial reporting and compliance.



Haga Kommer LTD  
Bismarck, North Dakota  
January 19, 2018

**NORTH DAKOTA BOARD OF MASSAGE**  
**STATEMENTS OF NET POSITION**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 116,755	\$ 106,656
Capital Assets, Net of Accumulated Depreciation	<u>184</u>	<u>549</u>
 Total Assets	 116,939	 107,205
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts Payable	1,748	5,985
Deferred Revenue	<u>39,113</u>	<u>39,473</u>
 Total Liabilities	 <u>40,861</u>	 <u>45,458</u>
 <b>Net Position</b>		
Net Investment in Capital Assets	184	549
Unrestricted	<u>75,894</u>	<u>61,198</u>
 Total Net Position	 <u>\$ 76,078</u>	 <u>\$ 61,747</u>

See accompanying notes to the financial statements

**NORTH DAKOTA BOARD OF MASSAGE**  
**STATEMENTS OF**  
**REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Revenues		
Income		
License Renewals, App Fees, Misc Revenues	\$ <u>82,201</u>	\$ <u>76,927</u>
Total Income	82,201	76,927
Program Expenses		
Executive Secretary & Staff Compensation	26,180	48,628
Board Member-Travel and Other Expenses	2,331	2,716
Web Site, Internet Access, and Teleconference Costs	18,153	966
Office Supplies, Telephone, and Postage	5,567	4,306
Professional Fees and Notices	12,744	15,473
Dues and Subscriptions	300	359
Depreciation	365	365
Insurance Costs	661	1,389
Memberships	1,569	-
Total Program Expenses	<u>67,870</u>	<u>74,202</u>
Change in Net Position	14,331	2,725
Net Position, beginning of year	61,747	59,022
Net Position, end of year	<u>\$ 76,078</u>	<u>\$ 61,747</u>

See accompanying notes to the financial statements

**NORTH DAKOTA BOARD OF MASSAGE**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash received from licensees and others	\$ 81,841	\$ 79,815
Cash paid to suppliers, board members	<u>(71,742)</u>	<u>(69,171)</u>
Net cash provided (used) by operating activities	<u>10,099</u>	<u>10,644</u>
Net increase (decrease) in cash and cash equivalents	10,099	10,644
Cash at beginning of year	<u>106,656</u>	<u>96,012</u>
Cash at end of year	<u>\$ 116,755</u>	<u>\$ 106,656</u>
 Change in Net Position	 \$ 14,331	 \$ 2,725
Change in accounts payable	(4,237)	4,667
Change in deferred revenue	(360)	2,887
Depreciaton Expense	<u>365</u>	<u>365</u>
Net cash provided (used) by operating activities	<u>\$ 10,099</u>	<u>\$ 10,644</u>

See accompanying notes to the financial statements

**NORTH DAKOTA BOARD OF MASSAGE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**1. Nature of Organization**

The North Dakota Board of Massage is an entity created by the North Dakota Century Code as a governmental organization. The Board administers the licensing of massage therapists within the State of North Dakota. The operations of the board are managed by a five member board. Three of the members are required to be massage therapists who are licensed, in the State of North Dakota. They are appointed for a three-year term. Two of the members are consumer members who are appointed for two-year terms. All members are appointed by the Governor of the State of North Dakota.

The fees are set by statute at \$150 for initial testing and the application fee. The Board is required to set the renewal fee, which was \$50 for each of the two years. The fees are to be used for the testing and licensing of applicants. Also, the Board is responsible for any disciplinary actions required as deemed necessary by the Board.

**2. Summary of Significant Accounting Policies**

Financial Statement Presentation— Pursuant to the provisions of Governmental Accounting Standards Board (GASB), the full scope of the Board's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements. Business-type activities use the accrual basis of accounting and the measurement focus is the flow of economic resources. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Board follows the pronouncements of GASB, which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States for government entities. The Board follows all applicable GASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Basis of Accounting – Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Board's Fund is accounted for using the accrual basis of accounting. The accrual basis of accounting recognizes revenues when they are earned. Expenditures are recorded when the related liability is incurred.

Reporting Entity – For financial reporting purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

Based on the above criteria, there are no component units to be included within the North Dakota Board of Massage as a reporting entity.

See independent auditor's report



**NORTH DAKOTA BOARD OF MASSAGE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Revenue and Expense Recognition – The Board presents its revenues and expenses as operating based on recognition definitions from GASB. Operating activities are those activities that are necessary and essential to the mission of the Board. Operating revenues include all charges to licensees. Operating expenses are all expense transactions incurred other than those related to investing, capital, or non-capital financing activities.

Deferred Revenue – Deferred revenues represent license renewal fees received in the current year for the next fiscal year's activities.

Cash and Cash Equivalents – The Board considers demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less to be cash and cash equivalents.

Capital Assets – Capital assets are capitalized at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Net position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on the Board. External restrictions may be imposed through state or local laws, and grant or contract provision. Unrestricted net position is all other assets that do not meet the definition of net investment in capital assets or restricted net position.

**3. Cash and Certificates of Deposit**

Cash – The Board's funds are required to be deposited and invested with the designated depositories in accordance with the laws of North Dakota. North Dakota law requires all public deposits be protected by insurance, surety bond, or collateral pledged by the financial institution. Pledged collateral must equal 110% of the deposits not covered by insurance or bonds.

Certificate of Deposit – The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

North Dakota law restricts allowable investments for public funds in order to safeguard the principle on investments.

See independent auditor's report

**NORTH DAKOTA BOARD OF MASSAGE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

North Dakota law authorizes political subdivisions to invest surplus funds in:

1. Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured to guarantee by the Treasury of the United States or its agencies instrumentalities, or organizations created by an act of Congress.
2. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
3. Certificates of deposit fully insured by the Federal Deposit Insurance Corporation or the State.
4. Obligation of the State.

**Concentration of Credit Risk**

The investment policy of the board contains no limitations on the amount that can be invested in any one issuer. All of the deposits in the Board's name are held as authorized by North Dakota.

**Custodial Credit Risk**

All of the Board deposits with financial institutions that are in excess of the federal depository insurance limits are held by the investment counterparty, not in the name of the Board.

**Credit, Interest Rate, and Foreign Currency Risk**

The Board has no interest rate risk, credit risk, or foreign currency risk of debt securities, as there are no debt securities owned by the Board nor does the Board own any foreign investments.

**4. Capital Assets and Depreciation**

Depreciation is calculated based on the type of property using a straight line depreciation. Capital asset activity for the years ended June 30, 2016 and 2017 was as follows:

	<b>Balance 06/30/15</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 06/30/16</b>
<b>Governmental Activities</b>				
Office Equipment	\$ 1,824	\$ -	\$ -	\$ 1,824
Less: Accumulated Depreciation	(910)	(365)	-	(1,275)
<b>Net Capital Assets</b>	<b>\$ 914</b>	<b>\$ (365)</b>	<b>\$ -</b>	<b>\$ 549</b>

See independent auditor's report

**NORTH DAKOTA BOARD OF MASSAGE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>Balance 06/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 06/30/17</u>
<b>Governmental Activities</b>				
Office Equipment	\$ 1,824	\$ -	\$ -	\$ 1,824
Less: Accumulated Depreciation	<u>(1,275)</u>	<u>(365)</u>	<u></u>	<u>(1,640)</u>
<b>Net Capital Assets</b>	<u><u>\$ 549</u></u>	<u><u>\$ (365)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 184</u></u>

**5. Risk Management**

The Board faces a considerable number of risks of loss including: a) damage to and loss of property and contents, b) employee torts, c) professional liability (i.e. errors and omissions), and d) environmental damage. A variety of methods are used to provide insurance for these risks. Commercial policies transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. The Board is insured by commercial policies for tort liability coverage. Given the lack of coverage available the Board has no coverage for potential losses from environmental damages.

**6. Subsequent Events**

The Board has evaluated subsequent events through the date of this report, the date which the financial statements were available to be issued.

See independent auditor's report

**INDEPENDENT AUDITOR'S 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 Dakota Board of Massage  
Bismarck, North Dakota

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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the North Dakota Board of Massage, as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the North Dakota Board of Massage's basic financial statements and have issued our report thereon dated January 19, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the North Dakota Board of Massage's internal control over financial reporting (internal control) 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 North Dakota Board of Massage's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Board of Massage'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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2017-001, 2017-002, and 2017-003 that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Dakota Board of Massage's financial statements are free from 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 there were no instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

### **North Dakota Board of Massage's Response to Findings**

The North Dakota Board of Massage has provided responses to the findings identified in our audit. The North Dakota Board of Massage's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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.

A handwritten signature in blue ink, appearing to read 'Haga Kommer'.

Haga Kommer, LTD  
Bismarck, North Dakota  
January 19, 2018



**NORTH DAKOTA BOARD OF MASSAGE**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2016 AND 2017**

**2017-001: Awareness of Limited Staff – Material Weakness**

Criteria

The ND Board of Massage is required to ensure that there is a segregation of duties necessary to assure adequate internal control.

Condition

There is a limited number of office personnel that prevents segregation of duties necessary to assure adequate internal control. While this is quite common for organization of this size, it important for those in charge to be aware of this and take extra care to ensure the integrity of the financial information.

Cause

The limited number of office personnel prevents segregation necessary to assure adequate internal control.

Effect

The ND Board of Massage contracted with the Keitu Engineering and Consultants, Inc. to manage its administrative role.

Recommendation

Under these conditions, board members need to be aware of these limitations and realize that the concentration of duties and responsibilities is not desirable from a control point of view. The most effective ways to mitigate this inherent weakness in internal control lie in the board's knowledge of the corporation's financial and operational matters. Periodic reviews of comparative financial statements and budget versus actual reports are desirable.

Views of Responsible Officials and Planned Corrective Actions

Keitu Engineering and Consultants, Inc. was hired in 2016 to manage the ND Board of Massage's administrative role. This allows the Board of Directors to maintain their independence and a more adequate segregation of duties.

**NORTH DAKOTA BOARD OF MASSAGE**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2016 AND 2017**

**2017-002: IT Controls – Material Weakness**

Criteria

The ND Board of Massage is required to ensure that they have proper IT controls implemented to safeguard the records of the organization.

Condition

During our audit we discovered that the accounting records of the organization had been deleted in 2016. The financial records and financial statements had to be recreated to complete the audit for the periods ending June 30, 2016 and June 30, 2017.

Cause

Due to the lack of internal controls over IT policies the accounting records of the organization that were recorded in QuickBooks accounting software had been deleted and no backups of QuickBooks had been created.

Effect

Due to the deletion of QuickBooks in 2016 all of the accounting records had to be recreated for the audit period. Several documents were used when recreating this data as there was not one set of records after the deletion of the QuickBooks file.

Recommendation

We recommend that all financial data pertaining to the organization be backed up onsite, offsite, or both. We also recommend that the information be safeguarded through the use of passwords and other security measure.

Current Status

Keitu Engineering and Consultants, Inc. was hired in 2016 to manage the ND Board of Massage's administrative role. Keitu Engineering does do onsite backups of the ND Board of Massage's QuickBooks file on a consistent basis. Both Amy Heilman (Office Manager) and Ana Avanda (Bookkeeper) have access to the QuickBooks file.

**NORTH DAKOTA BOARD OF MASSAGE**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2016 AND 2017**

**2017-003: Financial Reporting & Recordkeeping – Material Weakness**

Criteria

The ND Board of Massage is required to maintain internal controls at a level where the underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on a GAAP basis.

Condition

Both the financial records and financial statements had to be recreated to complete the audit for the periods ending June 30, 2016 and June 30, 2017. A complete set of financial statements for the audit period were not provided to us during the audit nor was there a complete set of books that were properly recorded on a GAAP basis. Keitu Engineering and Consultants, Inc. was hired in October 2016 to manage the ND Board of Massage's administrative role. Keitu started recording the financial activity of the ND Board of Massage in QuickBooks in October 2016. Prior to this date the financial records that we received included both the bank statements and check registers that contained a detail listing of which income or expense item each transaction related to. We were also provided with the ND Board of Massage's previous audit report dated June 30, 2015.

Cause

There is a lack of continuity of the accounting records due to the constant changing of the organization or individuals that maintain the ND Board of Massage's accounting records.

Effect

Due to the deletion of QuickBooks in 2016 all of the accounting records had to be recreated for the audit period. During the audit we used the check registers of all checking accounts, bank statements, trial balance for the period January 1, 2017 through June 30, 2017, and the previous audit report to compile a complete set of financial statements for both periods ending June 30, 2016 and 2017. The board of directors were provided with financial reports during this period but they were only reflective of the information included on the check registers. The reports were not in accordance with GAAP.

Recommendation

We recommend that a professional relationship be maintained with the organization that is being hired to manage the administrative role of the ND Board of Massage. We also recommend maintaining one set of records that are properly prepared on a GAAP basis and if there are any changes in the organization that is managing the administrative role we recommend that all records be transferred over as well to ensure the continuity of the financial records.



**NORTH DAKOTA BOARD OF MASSAGE**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2016 AND 2017**

Current Status

As mentioned above, Keitu Engineering and Consultants, Inc. was hired in October 2016 to manage the ND Board of Massage's administrative role. As of the January 19, 2018 when we issued the audit report the administrative role of the ND Board of Massage had been transferred to APT, Inc. an organization located in Bismarck, ND. Since the administrative role has been transferred to APT, Inc. we cannot determine the status of this material weakness.