

*North Carolina Substance Abuse Professional Practice Board*

Financial Statements

Year Ended June 30, 2018



**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**  
**Financial Statements**  
**Year Ended June 30, 2018**

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**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2018**

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the year ending June 30, 2018. Please read it in conjunction with the financial statements which follow this section.

**Financial Highlights**

During the year ended June 30, 2018, the Board's net position increased by \$74,150, or 6%, due to the Board's operating revenues exceeding its operating expenses.

During the year ended June 30, 2018, the operating revenues of the Board increased by \$30,167, or 3%, due primarily to an increase in registration and renewal fees.

During the year ended June 30, 2018, the operating expenses of the Board decreased by \$46,037, or 5%, due primarily to a decrease in database management fees and training.

**Overview of the Financial Statements**

This financial report consists of two sections: Management's Discussion and Analysis and the Financial Statements. The Board has no other supplementary information required by Governmental Accounting Standards Board (GASB) Statement No. 34. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

**Basic Financial Statements**

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies.

The Statement of Net Position presents the current and long-term portions, if any, of assets and liabilities separately.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents information on how the Board's net position changed as a result of its operations.

The Statement of Cash Flows presents information on how the Board's cash changed as a result of its financial activities.

**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2018**

**Condensed Financial Information**

The following presents condensed financial information on the operations of the Board:

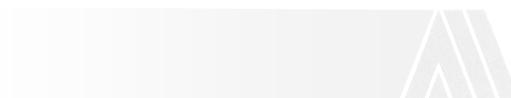
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Amount of Change</u>
Current assets	\$ 1,280,459	\$ 1,195,762	\$ 84,697
Total assets	<u>\$ 1,280,459</u>	<u>\$ 1,195,762</u>	<u>\$ 84,697</u>
Current liabilities	\$ 32,291	\$ 21,744	\$ 10,547
Total liabilities	<u>\$ 32,291</u>	<u>\$ 21,744</u>	<u>\$ 10,547</u>
Unrestricted net position	\$ 1,248,168	\$ 1,174,018	\$ 74,150
Total net position	<u>\$ 1,248,168</u>	<u>\$ 1,174,018</u>	<u>\$ 74,150</u>
Operating revenues	\$ 941,492	\$ 911,325	\$ 30,167
Operating expenses	<u>(879,835)</u>	<u>(925,872)</u>	<u>(46,037)</u>
Operating income (loss)	61,657	(14,547)	76,204
Non-operating revenues	<u>12,493</u>	<u>77</u>	<u>12,416</u>
Change in net position	<u>\$ 74,150</u>	<u>\$ (14,470)</u>	<u>\$ 88,620</u>

**Events Affecting Future Operations**

The Board has indicated it has no significant events affecting future operations which are reportable pursuant to GASB 34.

**Contacting the Board's Management**

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina Substance Abuse Professional Practice Board, P.O. Box 10126, Raleigh, North Carolina 27605.





ERNEST W. WARNER, JR.  
ROBERT A. ALEXANDER  
JAMES E. CARTER, JR.  
TINA M. GOERTZ

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD  
Raleigh, North Carolina

We have audited the accompanying financial statements of NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD (the Board) as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express 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. 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Private Companies Practice Section  
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Certified Public Accountants  
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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*A.T. ALLEN & COMPANY, LLP*

Raleigh, North Carolina  
October 31, 2018

**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**

**Statement of Net Position**

**June 30, 2018**

**Assets**

Current assets:

Cash	\$ 550,591
Investments	603,480
Accounts receivable - state contract	89,805
Prepaid expenses	<u>36,583</u>

Total assets \$ 1,280,459

**Liabilities and Net Position**

Current liabilities:

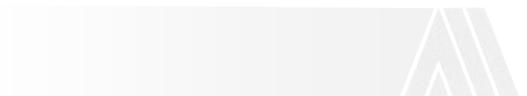
Accounts payable	\$ 32,291
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Net position:

Unrestricted	<u>1,248,168</u>
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Total liabilities and net position \$ 1,280,459

The accompanying notes are an integral part of these financial statements.



**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Year Ended June 30, 2018**

Operating revenues:	
License and exam fees	\$ 547,125
State of North Carolina contract	321,654
Criminal background fees	52,136
Training fees	19,025
Other operating income	<u>1,552</u>
Total operating revenues	<u>941,492</u>
Operating expenses:	
Administrative services	424,000
Bank fees	1,781
Meeting expense	18,284
Board insurance	3,585
Credit card processing fees	20,096
Criminal background expense	48,728
Consultants	46,681
Investigative fees	17,853
Database management fees	40,301
Dues	12,845
Evaluation expenses	126,952
Office supplies and expense	19,191
Postage	5,660
Professional fees	87,520
Telephone	1,484
Storage	1,860
Scholarships	1,994
Miscellaneous	<u>1,020</u>
Total operating expenses	<u>879,835</u>
Operating income	<u>61,657</u>
Non-operating revenues (expenses):	
Interest and dividends	17,620
Unrealized loss on investments	(1,775)
Bond amortization	(1,088)
Investment fees	<u>(2,264)</u>
Total non-operating revenues (expenses)	<u>12,493</u>
Change in net position	74,150
Net position - beginning of year	<u>1,174,018</u>
Net position - end of year	<u>\$ 1,248,168</u>

The accompanying notes are an integral part of these financial statements.

**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**

**Statement of Cash Flows**

**Year Ended June 30, 2018**

Cash flows from operating activities:	
Cash received from fees and other operating income	\$ 917,491
Cash payments for operating expenses	<u>(864,288)</u>
Net cash provided by operating activities	<u>53,203</u>
Cash flows from investing activities:	
Purchase of investments	(606,343)
Investment fees	(2,264)
Interest and dividends	<u>17,620</u>
Net cash used by investing activities	<u>(590,987)</u>
Net decrease in cash	(537,784)
Cash - beginning of year	<u>1,088,375</u>
Cash - end of year	<u>\$ 550,591</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 61,657</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(24,001)
Prepaid expenses	5,000
Accounts payable	<u>10,547</u>
Total adjustments	<u>(8,454)</u>
Net cash provided by operating activities	<u>\$ 53,203</u>

The accompanying notes are an integral part of these financial statements.

**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**  
**Notes to Financial Statements**  
**June 30, 2018**

1. NATURE OF ACTIVITIES

North Carolina Substance Abuse Professional Practice Board (the Board) is an independent state agency. It is an occupational licensing board and is authorized by Chapter 90 of the North Carolina General Statutes. The Board is composed of 25 members, in which some are appointed by the Governor and the General Assembly of the State of North Carolina. It is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR).

The Board is established to maintain minimum standards for services provided by substance abuse professionals.

The Board's operations are financed with self-generated revenues from fees charged to licensees and with a contract for service with the State of North Carolina.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

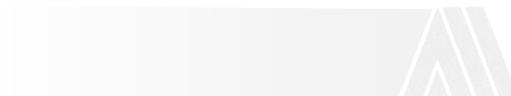
Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus measures all assets that are available to the entity, not only cash or soon to be assets. Both long-term assets and long-term liabilities are measured and depreciation is recorded as a cost of operations. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of cash flows.



# NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD

## Notes to Financial Statements

June 30, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of Accounting (continued)

The Board classifies its revenues as operating and non-operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's principal ongoing operations. Operating revenues consist primarily of license fees and the State of North Carolina contract and include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities; and are classified as non-operating in the financial statements.

#### Cash

This classification includes undeposited receipts, petty cash, and checking accounts.

#### Revenue Recognition

The Board's license fees are assessed and collected every two years, which begins with each respective licensee's license inception date, and ends on each respective licensee's subsequent second-year anniversary date. License renewal fees are recognized as revenue in the period received and are not deferred and recognized as revenue over the periods to which they relate. This revenue recognition method reasonably reflects the income of the Board.

#### Income Taxes

The Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is exempt from federal and state income taxes.

#### Use of Estimates

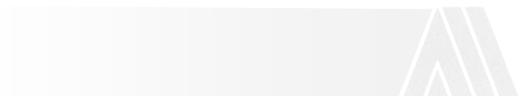
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements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

#### Investments

The Board is authorized to invest idle funds in accordance with North Carolina General Statutes. This classification consists of mutual funds and corporate bonds held by the Board for investment. Investments are stated at fair value.

### 3. DEPOSITS

At June 30, 2018, the Board's deposits had a carrying amount of \$550,591 and a bank balance of \$550,566, which was covered by federal depository insurance to the extent of the \$250,000 per depositor FDIC limit.



**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**  
**Notes to Financial Statements**  
**June 30, 2018**

4. NET POSITION

The net position of the Board is classified as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any loan proceeds that are attributable to the acquisition, construction, or improvement of those capital assets. As of June 30, 2018, the Board had no investment in capital assets.

Restricted net position – expendable – This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. As of June 30, 2018, the Board had no restricted net position – expendable.

Unrestricted net position – This component of net position consists of the net position that does not meet the definition of *restricted net position or net investment in capital assets*.

5. INVESTMENTS

The Board is subject to the following risks:

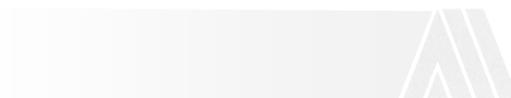
Credit risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. Investments of the Board are subject to the statutory requirements of North Carolina General Statutes, however the Board’s present policy for managing credit risk is to limit its investments to mutual funds and corporate bonds.

The Securities Investor Protection Corporation (SIPC) is a nonprofit member corporation funded by its member securities broker-dealers. The SIPC insures against the loss or theft of securities as well as the failure or insolvency of the brokerage firm. At June 30, 2018, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$103,480.

Interest rate risk – Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments. As a means of limiting its exposure to fair value losses arising from market fluctuations and interest rate variances, the Board limits its investments to mutual funds and corporate bonds.

The following table presents the fair value of investments by type and investment subject to interest rate risk and credit risk at June 30, 2018, for the Board’s investments:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds	\$ 248,497	\$ 262,449	\$ 13,952
Corporate bonds	<u>356,758</u>	<u>341,031</u>	<u>(15,727)</u>
	<u>\$ 605,255</u>	<u>\$ 603,480</u>	<u>\$ (1,775)</u>



**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**  
**Notes to Financial Statements**  
**June 30, 2018**

5. INVESTMENTS (continued)

The maturities of the Board's fixed income investments as of June 30, 2018 were as follows:

Maturities:

0 - 5 years	\$ 284,340
6 - 10 years	<u>56,691</u>
	<u>\$ 341,031</u>

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2018, the Board's bond portfolio had the following credit ratings as rated by Moody's Investors Service:

Credit Rating:

AAA	\$ 56,637
AA1	56,691
A2	57,306
A3	57,960
BAA1	112,437

Concentration of credit risk – A diversified portfolio is managed by the Board and its financial advisors to minimize the risk of loss resulting from over concentration of assets; however, the Board places no limit on the amount the Board may invest in any one issuer. The following investments make up more than 5% of total investments:

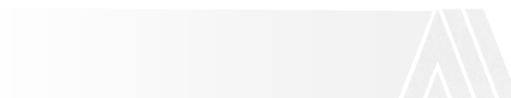
	<u>Book Value at 6/30/2018</u>	<u>Percent of Total Investments</u>
Corporate Bonds:		
General Electric Capital Corporation	\$ 57,306	9%
Bank of America	57,960	10%
Ebay Inc.	56,338	9%
Microsoft Corporation	56,637	9%
Verizon Communications Inc.	56,099	9%
Apple Inc.	56,691	9%

6. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; and natural disasters. These exposures to loss are handled by participation in state-administered risk programs and self-retention of certain risks. The Board protects itself from exposure to loss through the purchase of commercial insurance coverage.

7. CONTINGENCIES

The Board is involved in occasional disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the year under audit do not materially affect the Board's operations, changes in financial position or cash flows for the year herein ended.



**NORTH CAROLINA SUBSTANCE ABUSE PROFESSIONAL PRACTICE BOARD**  
**Notes to Financial Statements**  
**June 30, 2018**

8. FAIR VALUE MEASUREMENT

Fair value, as defined under U.S. GAAP, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U. S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Board's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following table sets forth by level, within the fair value hierarchy, the Board's financial assets accounted for at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds	\$ 262,449	\$ -	\$ -	\$ 262,449
Corporate bonds	-	341,031	-	341,031
	<u>\$ 262,449</u>	<u>\$ 341,031</u>	<u>\$ -</u>	<u>\$ 603,480</u>

There have been no changes in valuation techniques and related inputs during the year.

9. CONTRACTUAL MANAGEMENT SERVICES

The Board does not have any employees. The Board has an annual contract with a company located in Raleigh, North Carolina to provide administrative services. The contract includes all services related to the process of the license application, license renewal, testing, and various other duties. The Board also reimburses the management company for miscellaneous office supplies and expenses. The amount paid under the contract during the year ended June 30, 2018, was \$424,000.

10. SUBSEQUENT EVENTS

The Board has evaluated subsequent events through October 31, 2018, the date which the financial statements were available to be issued.

11. NORTH CAROLINA LEGISLATIVE STATUTORY DISCLOSURE REQUIREMENT CONCERNING AUDIT FEES

The audit was conducted in approximately 60 hours at a cost of \$6,500.