

NORTH CAROLINA STATE BOARD
OF DENTAL EXAMINERS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013



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NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS

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NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS

Management's Discussion and Analysis

Introduction

The following is a discussion and analysis of the North Carolina State Board of Dental Examiners (the "Board") financial performance for the year ended December 31, 2013. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous year are presented in the analysis.

Financial Highlights

During 2013, the operating revenues of the Board increased by \$111,424 or 4.4%, due primarily to an increase in dental and hygienist licensures.

During 2013, the non-operating revenues of the Board increased by \$563, due primarily to interest income on investments in certificates of deposit.

During 2013, the operating expenses of the Board increased by \$96,366 or 3.86%, due primarily to an increase in hearing and investigative costs.

Overview of the Basic Financial Statements

This financial report consists of two sections: Management's Discussion and Analysis, and the financial statements. The financial statements also include notes to the basic financial statements that provide detail of the information included in the basic financial statements.

Basic Financial Statements

The basic financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statement of Net Position (page 5) presents the assets, liabilities, and net position of the Board.

The Statement of Revenues, Expenses, and Changes in Net Position (page 6) presents information on how the Board's net position changed as a result of the year's operations.

The Statement of Cash Flows (page 7) presents information on how the Board's cash changed as a result of the year's activity.

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS

Management's Discussion and Analysis

The following presents condensed financial information on the operations of the Board as of December 31, and its operating and non-operating revenues and expenses for the years then

	<u>2013</u>	<u>2012</u>
Current assets	\$ 2,932,622	\$ 2,532,654
Capital assets	109,583	131,292
Total assets	<u>3,042,205</u>	<u>2,663,946</u>
Current liabilities	1,587,441	1,274,530
Total liabilities	<u>1,587,441</u>	<u>1,274,530</u>
Net investment in capital assets	109,583	131,292
Unrestricted	1,345,181	1,258,124
Total net position	<u>\$ 1,454,764</u>	<u>\$ 1,389,416</u>
Operating revenues	\$ 2,655,062	\$ 2,543,638
Operating expenses	<u>(2,594,123)</u>	<u>(2,497,757)</u>
Operating income	60,939	45,881
Non-operating revenues	4,410	3,847
Changes in net position	<u>\$ 65,349</u>	<u>\$ 49,728</u>

Events Affecting Future Operations

Management is in the process of re-negotiating its current facilities' lease agreement and is seeking more space in anticipation of the expiration of the current lease in early 2017. Management is also implementing changes to the website with plans to eventually allow all cash transactions to be conducted on-line.

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 State Board of Dental Examiners, 507 Airport Boulevard, Suite 105, Morrisville, North Carolina 27560.

Independent Auditor's Report

Members of the Board
North Carolina State Board of Dental Examiners
Morrisville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Board of Dental Examiners (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statement of net position as of December 31, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the Board's financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the basic 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 Board'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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Board of Dental Examiners as of December 31, 2013, and its changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements are presented only for the North Carolina State Board of Dental Examiners and do not purport to and do not present fairly the financial position of the State of North Carolina as of December 31, 2013, nor the changes in its financial position and its cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 2, 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.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
October 30, 2014

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS**Statement of Net Position****December 31, 2013**

ASSETS:

Current assets:

Cash and cash equivalents	\$ 1,528,387
Investments	1,402,235
Other current assets	<u>2,000</u>
Total current assets	<u>2,932,622</u>

Noncurrent assets:

Capital assets, net depreciation	<u>109,583</u>
Total noncurrent assets	<u>109,583</u>
Total assets	<u>3,042,205</u>

LIABILITIES:

Current liabilities:

Accounts payable	218,031
Accrued vacation and sick leave payable	12,577
Unearned license revenue	<u>1,356,833</u>
Total current liabilities	<u>1,587,441</u>
Total liabilities	<u>1,587,441</u>

NET POSITION:

Unrestricted funds	1,345,181
Invested in capital assets	<u>109,583</u>
Total net position	<u>\$ 1,454,764</u>

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2013

Operating revenues:

Dentist fees	\$ 1,740,361
Dental hygienist fees	673,166
PA & PLLC fees	62,465
Anesthesia/sedation fees	58,600
Other fees	62,520
Miscellaneous income	57,950
Total operating revenues	<u>2,655,062</u>

Operating expenses:

Salaries and benefits	650,665
Professional fees	1,300,764
Board expenses	161,543
Examination expenses	13,673
Hearing and investigative expenses	86,826
Rent and storage	106,179
Office expenses	16,911
Postage and printing	40,994
Computer and website	22,197
Utilities	16,851
Insurance	427
Staff travel and education	21,380
Machine maintenance and rental	11,722
Dues and subscriptions	14,476
Bank charges and online fees	79,973
Office evaluator	7,220
Refunds	68
Depreciation	42,254
Total operating expenses	<u>2,594,123</u>

Operating income

60,939

Non-operating revenues:

Interest income	<u>4,410</u>
Total non-operating revenues	<u>4,410</u>

Change in net position

65,349

Net position - beginning of year

1,389,415

Net position - end of year

\$ 1,454,764

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS**Statement of Cash Flows****Year Ended December 31, 2013**

Cash flows from operating activities:

Cash received from fees	\$ 2,899,628
Cash payments to employees for services	(653,834)
Cash payments for operating expenses	<u>(1,829,690)</u>
Net cash provided by operating activities	<u>416,104</u>

Cash flows from capital and financing activities:

Acquisition of capital assets	<u>(20,546)</u>
Net cash used in capital and financing activities	<u>(20,546)</u>

Cash flows from investing activities:

Purchase of investments	(4,502,108)
Sale of investments	4,400,000
Net investment income	<u>3,017</u>
Net cash used in investing activities	<u>(99,091)</u>

Net increase in cash and cash equivalents 296,467

Cash and cash equivalents - beginning of year 1,231,920Cash and cash equivalents - end of year \$ 1,528,387Reconciliation of operating income to net cash
provided by operating activities:

Operating income	<u>\$ 60,939</u>
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	42,254
Changes in assets and liabilities:	
Accounts payable	71,514
Accrued vacation and sick leave payable	(3,169)
Unearned revenues	<u>244,566</u>
Total adjustments	<u>355,165</u>
Net cash provided by operating activities	<u><u>\$ 416,104</u></u>

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The North Carolina State Board of Dental Examiners (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 87 of the North Carolina General Statutes (NCGS). The Board is composed of eight members.

The Board's primary responsibilities are to issue and renew licenses of dentists and dental hygienists. Additionally the Board is responsible for the administration of licensure examinations for dentists and dental hygienists. The Board is also responsible for promulgation of rules and enforcement of laws and regulations governing the practice of dentistry and dental hygiene in the state of North Carolina.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

Financial Reporting Entity

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

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and may be 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 basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board ("GASB").

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 measurement focus measures all assets that are available to the entity, not only cash or soon to be cash 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 the cash flows. Fees received for the various licenses are deemed earned in the year in which the license period begins.

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The Board classifies its revenues as operating or 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 include activities that have characteristics of exchange transactions and consist primarily of examination and license fees. Operating expenses are all expense transactions incurred other than those related to capital and non-capital 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*.

Cash and Cash Equivalents

This classification includes cash on deposit and money market accounts with private bank accounts. For the purpose of the Statement of Cash Flows, the Board considers all investments with a maturity of three months or less when purchased to be cash.

Investments

This classification includes non-negotiable certificates of deposit with original maturities of more than three months. The certificates of deposit are reported at fair market value, which is cost plus accrued interest to date.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Board capitalizes assets that have a cost of \$500 or greater at the date of acquisition and an expected useful life in excess of one year. Depreciation is computed using the straight-line method over the following useful lives:

Leasehold Improvements	5 - 39 years
Furniture	7 years
Equipment	3 - 10 years
Software	3 years
Vehicles	5 years

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in non-operating revenue or expense for the period.

Accrued Vacation and Sick Leave Payable

Board employees may accumulate vacation until December 31 of any calendar year based on their total years of service. Accrued and unused vacation leave as of December 31 will be paid out to the employee at the employee's normal rate of pay in the first paycheck of the following year.

The Board's sick leave policy provides for any accumulated and unused earned sick leave to be paid out to the employee at the employee's normal rate of pay in the first paycheck of the following year.

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Investment in capital assets – This represents the Board's total investment in capital assets, net of accumulated depreciation.

Unrestricted net position - This represents assets with no external restriction as to use or purpose. They can be employed for any purpose designated by the governing board, as distinguished from funds restricted externally for specific purposes.

Designations of net assets represent management's estimates that are subject to change based on perceived operating conditions and situations.

Legal expenses	\$ 900,000
Leasehold improvements	91,099
Exam development	100,000
	<u>\$ 1,091,099</u>

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the Board are deposited in board-designated official depositories or brokerage firms. The Board's deposits include cash on deposit in private bank accounts, money market accounts, and certificates of deposit. At December 31, 2013, deposits in private financial institutions, with a carrying value of \$2,930,622, consists of cash and short-term investments, as shown on the Statement of Net Position. The short-term investments are certificates of deposit in the amount of \$1,099,403 and cash/money market account in the amount of \$302,832.

The Board is subject to the following risks:

Custodial credit risk: The risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board does not have a formal deposit policy for custodial credit risk. The Board's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Board's bank deposits in excess of the FDIC insured limit totaled \$1,015,714 at December 31, 2013.

Interest Rate Risk: The risk the Board may face should interest rate variances affect the fair value of investments. The Board minimizes this risk by investing only in certificates of deposit.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board manages credit risk by diversifying its investment portfolio. Investments are limited to: time deposits, certificates of deposit, and savings accounts in financial institutions.

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS**Notes to Financial Statements****NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at December 31, 2013, for the Board's investments.

Investment Type	Fair Value	Properties of Debt Securities	
		Weighted Average Maturities	Ratings
Other securities:			
Certificates of deposit	<u>\$1,099,403</u>	6.07 Months	N/A

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

A reconciliation of deposits and investments for the Board to the basic financial statements at December 31, 2013, is as follows:

Carrying amount of deposits with private financial institutions	\$ 1,420,774
Money market mutual funds	410,446
Investments in certificates of deposit	<u>1,099,403</u>
Total deposits and investments	<u>\$ 2,930,622</u>

NOTE 3 - CAPITAL ASSETS

Changes in capital assets as of and for the year ended December 31, 2013 are as follows:

	Balance 1/1/2013	Additions	Deletions	Balance 12/31/2013
Capital assets, depreciable:				
Leasehold improvements	\$ 66,204	\$ -	\$ -	\$ 66,204
Equipment	284,509	4,596	-	289,105
Furniture	155,949	-	-	155,949
Software	-	15,950	-	15,950
Vehicles	35,433	-	-	35,433
Total capital assets, depreciable	<u>542,095</u>	<u>20,546</u>	<u>-</u>	<u>562,641</u>
Less accumulated depreciation:				
Leasehold improvements	(26,323)	(1,986)	-	(28,309)
Equipment	(237,461)	(23,377)	-	(260,838)
Furniture	(118,894)	(14,452)	-	(133,346)
Software	-	(664)	-	(664)
Vehicles	(28,126)	(1,775)	-	(29,901)
	<u>(410,804)</u>	<u>(42,254)</u>	<u>-</u>	<u>(453,058)</u>
Total capital assets, depreciable, net	<u>131,291</u>	<u>(21,708)</u>	<u>-</u>	<u>109,583</u>
Capital assets, net	<u>\$ 131,291</u>	<u>\$ (21,708)</u>	<u>\$ -</u>	<u>\$ 109,583</u>

Depreciation charged to operations totaled \$42,254.

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS
Notes to Financial Statements

NOTE 4 - ACCRUED VACATION AND SICK LEAVE PAYABLE

Changes to accrued vacation and sick leave payable are as follows:

Beginning balance	\$ 15,746
Increases	39,946
Decreases	(43,115)
Ending balance	<u>\$ 12,577</u>

NOTE 5 - UNEARNED LICENSE REVENUE

The Board defers revenue recognition in connection with resources that have been received, but not yet earned. License renewal fees are collected in advance and recorded as unearned revenue at year-end to be recognized as revenue when the license period begins on January 1st of the next fiscal year. Unearned revenue reported was \$1,356,833 for the period ended December 31, 2013.

NOTE 6 - EMPLOYEE PENSION PLAN

The Board participates in the North Carolina Licensing Board Retirement Savings Plan (Plan), which is a defined contribution plan created under Internal Revenue Code Section 401(k). The Employer, defined as the eight participating licensing boards, is empowered to appoint and remove the Trustee and Administrator.

Employees are eligible to participate in the Plan immediately upon employment. Employer contributions vest 20% a year for the first five years. A 6% contribution, based on eligible employee compensation, is made monthly by both the Board and the employee. Employees may make additional voluntary contributions to the Plan. The Plan is administered by Prudential Insurance Company of America. Board pension costs including administrative fees, totaled \$31,711 for 2013. Employee contributions totaled \$30,617 for 2013.

NOTE 7 - OPERATING LEASES

The Board signed a lease agreement to rent office space on January 1, 2007. The lease term runs 10 years and 5 months ending May 31, 2017. The Board received five months of free rent totaling \$32,458. The amount of free rent is amortized over the life of the lease. As part of the rental agreement, the Board is required to pay an additional amount related to the building's operating expenses as determined by the landlord. Rent expense for the year ended December 31, 2013 was \$102,471. The Board also entered into a 5-year lease on April 12, 2013 for a printer. Under the current leases, future minimum rent payments are as follows:

<u>Years Ending December 31</u>	<u>Office Space</u>	<u>Printer</u>	<u>Total</u>
2014	\$ 86,047	\$ 3,478	\$ 89,525
2015	88,633	3,478	92,111
2016	91,289	3,478	94,767
2017	39,170	3,478	42,648
2018	-	1,159	1,159
	<u>\$ 305,139</u>	<u>\$ 15,071</u>	<u>\$ 320,210</u>

NORTH CAROLINA STATE BOARD OF DENTAL EXAMINERS

Notes to Financial Statements

NOTE 8 - RELATED PARTY TRANSACTIONS

In May of 1994, the North Carolina State Board of Dental Examiners and the North Carolina Dental Society set up the Caring Dental Professionals, a committee structured to assist dentists with alcohol or drug dependencies or mental impairments. A fee of \$40 was assessed from each licensed dentist and a fee of \$25 was assessed from each licensed dental hygienist during the 2013 annual license renewal process and these funds were used to operate the Caring Dental Professional's Program. A total of \$382,171 was paid to this organization for the year ended December 31, 2013.

NOTE 9 - 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; injuries to employees; and natural disasters. Tort claims of Board members are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the Board under the State's public officers' and employees' liability insurance contract with a private insurance company.

The Board also purchases general liability, workers' compensation, and dishonesty bond insurance through independent insurance agents.

NOTE 10 - CONTINGENCIES

The Board is involved in a number of 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.

The Board is involved in an ongoing case with the Federal Trade Commission for taking action against unlicensed providers of teeth whitening services. The case was heard by the Supreme Court on October 14, 2014 and a ruling is anticipated by June 30, 2014. The case is administrative and does not present any liability for civil damages.

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through October 30, 2014, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed.

The audit was conducted in approximately 70 hours at a cost of \$9,300.