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NORTH CAROLINA MEDICAL BOARD

Financial Statements

October 31, 2018 and 2017

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NORTH CAROLINA MEDICAL BOARD
Management's Discussion and Analysis
October 31, 2018

As management of the North Carolina Medical Board (the Board), we offer this discussion and analysis of the financial position for the fiscal year ended October 31, 2018. This discussion and analysis is designed to provide an overview of the Board's activities that have a financial impact and to present the change in the Board's financial position. This discussion should be read along with the financial statements and notes to the financial statements.

Financial Highlights

Net assets are an indicator of the financial health of the Board. Assets exceeded liabilities by \$6,302,278 and \$4,849,449 as of October 31, 2018 and 2017, respectively.

Condensed Statement of Net Position

	October 31,	
	2018	2017
Current Assets	\$ 10,961,553	\$ 8,699,615
Capital Assets	<u>1,634,675</u>	<u>1,603,832</u>
Total Assets	\$ <u>12,596,228</u>	\$ <u>10,303,447</u>
Current Liabilities	\$ 5,704,003	\$ 5,423,384
Noncurrent Liabilities	<u>583,464</u>	<u>30,614</u>
Total Liabilities	\$ <u>6,287,467</u>	\$ <u>5,453,998</u>
Deferred Inflows	<u>\$ 6,483</u>	<u>\$</u>
Invested in Capital Assets	\$ 1,634,675	\$ 1,603,832
Unrestricted Net Position	<u>4,667,603</u>	<u>3,245,617</u>
Total Net Position	\$ <u>6,302,278</u>	\$ <u>4,849,449</u>

The following table summarizes the revenues and expenses for the Board for the fiscal years ending October 31, 2018 and 2017:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	For the Years Ended October 31,	
	2018	2017
Operating Revenues	\$ 12,591,951	\$ 11,066,253
Non-Operating Revenues (Expenses)	<u>(94,828)</u>	<u>626,219</u>
Total Revenues	12,497,123	11,692,472
Operating Expenses	<u>11,044,294</u>	<u>9,611,764</u>
Change in Net Position	1,452,829	2,080,708
Beginning Net Position	<u>4,849,449</u>	<u>2,768,741</u>
Ending Net Position	\$ <u>6,302,278</u>	\$ <u>4,849,449</u>

Operating revenues increased by \$1,525,698. The primary reason for the increase in operating revenues was an increase in registration fees due to an increase in the number of licensees. Operating expenses increased by \$1,432,530. The primary reason for the increase in operating expenses was due recording the other post-employment benefit expense for the new benefit plan. The increase also was the result of an increase in employee wages and benefits and Physician Health program fees.

NORTH CAROLINA MEDICAL BOARD
Management's Discussion and Analysis
October 31, 2018

Overview of Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements, which comprise the following components: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board principles.

Financial Statements

The financial statements present information about the Board using accounting methods similar to those used by private businesses. The major difference being that the focus of governmental reporting is fiscal and operational accountability to assure that sufficient resources are available to cover cost of providing services over the long term as opposed to the market-driven focus reported in the private sector.

The Statement of Net Position presents assets, liabilities, and net position.

The Statement of Revenues, Expenses, and Changes in Net Position presents the activities that show the change in net position. Operating revenues are received primarily from initial and renewal of licensing fees. Non-operating revenue is derived from earnings on investments and gains (losses) on sales of capital assets. Operating expenses are used to acquire goods and services in return for the operating revenues in order to carry out the mission of the Board.

The Statement of Cash Flows presents information on how changes in the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position affect cash. The Statement of Cash Flows is useful in analyzing the short-term viability of the Board; i.e. its ability to meet its financial obligations.

Capital Assets

Net capital assets increased by \$30,843 during the year ended October 31, 2018. The increase was due primarily to routine equipment purchases and new capital leases offset by depreciation expense. The following is a summary of capital assets, net of depreciation:

	For the Years Ended October 31,	
	2018	2017
Land	\$ 177,000	\$ 177,000
Building and Improvements	1,075,550	1,134,964
Office Furniture and Equipment	382,125	291,868
	<u>\$ 1,634,675</u>	<u>\$ 1,603,832</u>

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 funds it receives and expends. If you have any questions about this report or need additional information, contact:

R. David Henderson, Chief Executive Officer
North Carolina Medical Board
P. O. Box 20007
Raleigh, NC 27619-0007

To the Board of Directors
North Carolina Medical Board
Raleigh, North Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of North Carolina Medical Board, as of and for the years ended October 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Board's 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 opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

Opinions

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 North Carolina Medical Board, as of October 31, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Raleigh
4060 Barrett Drive
Post Office Box 17806
Raleigh, North Carolina 27619

919 782 9265
919 783 8937 FAX

Durham
3500 Westgate Drive
Suite 203
Durham, North Carolina 27707

919 354 2584
919 489 8183 FAX

Pittsboro
579 West Street
Post Office Box 1399
Pittsboro, North Carolina 27312

919 542 6000
919 542 5764 FAX

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 1 through 2 and the Schedule of Changes in the Total OPEB Liability and Related Ratios 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 audits 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.

Koonce, Wooten & Haywood, L.L.P.

Raleigh, North Carolina
April 5, 2019

NORTH CAROLINA MEDICAL BOARD
Statements of Net Position
October 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS:		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 492,306	\$ 887,030
Accounts Receivable	19,500	36,305
Investments	10,370,074	7,715,430
Prepaid Expenses	79,673	60,850
Total Current Assets	<u>10,961,553</u>	<u>8,699,615</u>
CAPITAL ASSETS:		
Land	177,000	177,000
Building and Improvements	2,335,264	2,318,385
Office Furniture and Equipment	3,102,659	2,846,104
Total	<u>5,614,923</u>	<u>5,341,489</u>
Less Accumulated Depreciation	<u>3,980,248</u>	<u>3,737,657</u>
Total Capital Assets	<u>1,634,675</u>	<u>1,603,832</u>
Total Assets	<u>\$ 12,596,228</u>	<u>\$ 10,303,447</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts Payable	\$ 276,695	\$ 354,556
Compensated Absences	399,153	369,006
Obligation Under Capital Lease--Current	27,530	7,374
Unearned License Revenue	5,000,625	4,692,448
Total Current Liabilities	<u>5,704,003</u>	<u>5,423,384</u>
NONCURRENT LIABILITIES:		
Obligation Under Capital Lease--Noncurrent	77,795	30,614
Total OPEB Liability	<u>505,669</u>	<u>30,614</u>
Total Noncurrent Liabilities	<u>583,464</u>	<u>30,614</u>
Total Liabilities	<u>\$ 6,287,467</u>	<u>\$ 5,453,998</u>
DEFERRED INFLOWS OF RESOURCES:		
OPEB Deferrals	<u>\$ 6,483</u>	<u>\$</u>
NET POSITION:		
Invested in Capital Assets	\$ 1,634,675	\$ 1,603,832
Unrestricted	<u>4,667,603</u>	<u>3,245,617</u>
Total Net Position	<u>\$ 6,302,278</u>	<u>\$ 4,849,449</u>

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

NORTH CAROLINA MEDICAL BOARD
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended October 31, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Physicians' Fees	\$ 10,690,834	\$ 9,176,124
Corporations' Fees	146,256	141,564
Residents' Fees	487,798	464,269
Physician Assistants' Fees	842,330	776,607
Nurse Practitioners' Fees	285,167	366,166
Other Licensee Fees	74,675	72,690
DataLiNC and Roster Reports	45,221	39,833
Civil Penalties Collected	19,670	29,000
Total Operating Revenues	<u>12,591,951</u>	<u>11,066,253</u>
OPERATING EXPENSES:		
Employee Wages and Benefits	6,708,118	6,351,112
Physician Health Program	1,298,297	1,040,126
Other Post-Employment Benefits	512,152	
Maintenance and Computer Support	576,608	546,324
Office Expenses	730,244	683,531
Depreciation	242,591	210,114
Automotive, Travel, and Meal Expenses	259,417	218,439
Consulting	322,209	210,090
Board Per Diem Expense	145,850	131,838
Postage and Printing	75,983	81,689
Legal and Accounting	86,759	53,289
Civil Penalties Remitted	19,670	29,000
Dues and Publications	50,110	48,949
Other	16,286	7,263
Total Operating Expenses	<u>11,044,294</u>	<u>9,611,764</u>
OPERATING INCOME	<u>1,547,657</u>	<u>1,454,489</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment Income (Loss)	(95,356)	624,719
Gain on Disposal of Assets	528	1,500
Total Non-Operating Revenues (Expenses)	<u>(94,828)</u>	<u>626,219</u>
CHANGE IN NET POSITION	1,452,829	2,080,708
NET POSITION--Beginning of Year	<u>4,849,449</u>	<u>2,768,741</u>
NET POSITION--End of Year	<u><u>\$ 6,302,278</u></u>	<u><u>\$ 4,849,449</u></u>

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

NORTH CAROLINA MEDICAL BOARD
Statements of Cash Flows
For the Years Ended October 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Registrations	\$ 12,852,042	\$ 11,892,130
Cash Payments to Employees	(6,677,971)	(6,315,306)
Cash Payments to Physicians Health Program	(1,260,422)	(1,021,818)
Cash Payments for Office Operations	(2,417,695)	(1,916,499)
Cash Received for Other Operating Revenues	64,891	68,833
Net Cash Provided by Operating Activities	<u>2,560,845</u>	<u>2,707,340</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gain (Loss) from Sale of Capital Assets	528	1,500
Purchases of Capital Assets	(189,918)	(131,045)
Purchases of Investments	(6,349,921)	(4,334,864)
Proceeds from Sale of Investments	3,599,921	1,934,863
Net Cash Used by Investing Activities	<u>(2,939,390)</u>	<u>(2,529,546)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Obligation Under Capital Lease	(16,179)	(1,795)
Net Cash Used by Financing Activities	<u>(16,179)</u>	<u>(1,795)</u>
NET INCREASE (DECREASE) IN CASH	(394,724)	175,999
CASH AND CASH EQUIVALENTS--Beginning of Year	<u>887,030</u>	<u>711,031</u>
CASH AND CASH EQUIVALENTS--End of Year	<u>\$ 492,306</u>	<u>\$ 887,030</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 1,547,657	\$ 1,454,489
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	242,591	210,114
Changes in Assets and Liabilities:		
Accounts Receivable	16,805	(4,585)
Prepaid Expenses	(18,823)	(226)
Accounts Payable	(77,861)	112,447
Compensated Absences	30,147	35,806
Unearned License Revenue	308,177	899,295
Total OPEB Liability	505,669	
Deferred Inflows of Resources--OPEB	<u>6,483</u>	
Net Cash Provided by Operating Activities	<u>\$ 2,560,845</u>	<u>\$ 2,707,340</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Noncash Investing and Financing Activities:		
Reinvested Interest and Dividends, net of fees	\$ 230,947	\$ 99,308
Purchase of Equipment under a Capital Lease	83,517	39,783

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

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

1. Summary of Significant Accounting Policies

A. Organization:

The North Carolina Medical Board (the Board) is an occupational licensing board and is authorized by Chapter 90 of the NC General Statutes. The Board exists to regulate the practice of medicine for the benefit and protection of the people of the State of North Carolina. The Board is involved in licensing, monitoring, education, and rehabilitation of physicians, physicians' assistants, and certain other health care professionals.

B. 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, 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*. 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.

C. 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. The Board applied all applicable Financial Accounting Standards Board pronouncements issued before November 30, 1989.

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 or fees.

D. Basis of Accounting:

In accordance with *Governmental Accounting Standards Statement 34*, the Board presents a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units. The financial statements report all activities of the North Carolina Medical Board using the current financial resource measurement focus and the full accrual basis of accounting. Revenue from individual health care professional licensees is recognized over the license period. Individuals are licensed by the Board annually upon registering within 30 days of their birthday. Corporations are licensed annually and the revenue is recognized over the license period. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Other revenues and expenses are classified as non-operating in the financial statements.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

E. Deposits:

All deposits of the Board are maintained in financial institutions located in the State of North Carolina. Amounts in excess of monthly operating expenses are transferred to a managed investment account.

F. Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Board considers cash to include cash in banks and short-term investments with original maturities of three months or less.

G. Investments:

The Board reports investments at fair value as required by *Governmental Accounting Standards Statement 31*. Fair value is based on readily available published values. Money market funds invested through brokerage accounts or bank investment management firms are considered investments.

H. Capital Assets:

Capital assets are recorded at original cost using a capitalization threshold of \$5,000. Depreciation on furniture and office equipment is computed using the straight-line method over the estimated useful lives of the individual assets, ranging from three to seven years. Depreciation on the building and building improvements is computed using the straight-line method over the estimated useful life of the building, which is estimated at 30 years. Expenditures for repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation associated with capital assets are removed from the accounts upon retirement or other disposition, and any resulting gain or loss is reflected as a non-operating item.

I. Impairment of Long-Lived Assets:

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

J. Compensated Absences:

Vacation is accrued as earned and payable. Board policy provides for a maximum accumulation of unused vacation leave of 480 hours, which can be carried forward at the end of each fiscal year. Unused vacation in excess of 480 hours may be transferred to sick leave. Upon termination of employment, the employee is paid for vacation earned but not taken up to a maximum of 240 hours. The liability is adjusted annually for the change in accrued vacation pay, and the change is reflected in the statement of revenues, expenses, and changes in net position. Accrued vacation totaled \$399,153 and \$369,006 at October 31, 2018 and 2017, respectively.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Since the Board has no obligation to compensate an employee for the accumulated sick leave until it is taken, no accrual for sick leave has been made.

K. Unearned Revenue:

Unearned revenue consists of license fees collected and recognized as revenue over the time periods to which the fees relate.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Concluded)

L. Net Position:

Net position is classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The Board currently has no restricted net position.

M. Accounting 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 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 reported period. Actual results could differ from those estimates.

2. Investments

As of October 31, 2018 and 2017, the Board had the following investments:

	Fair Value	
	2018	2017
Corporate Bonds	\$ 1,673,544	\$ 2,017,315
Government and Government-Sponsored Agency Bonds	2,244,018	1,518,885
Equity Securities and Mutual Funds	6,003,092	3,960,419
Money Market Account	400,861	172,599
Publicly Traded Real Estate Investment Trusts	48,559	46,212
	<u>\$ 10,370,074</u>	<u>\$ 7,715,430</u>

The Board's investments are subject to interest, credit, and custodial risk.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates and to protect principal, the Board's investment policy seeks to maintain an asset allocation that allows for required cash flows while maintaining a high quality, diverse asset allocation.

The maturities of the Board's corporate and government bonds as of October 31, 2018 were:

1-3 years	\$ 1,540,807
3-10 years	<u>2,376,755</u>
	<u>\$ 3,917,562</u>

Credit Risk – The Board has authorized the investment manager discretion to buy and sell securities; however, the investment allocation guidelines are governed by the Board's investment policy. The investment policy permits a portfolio of 30% - 50% equity investments, 50% - 70% fixed income investments, and a maximum of 10% cash equivalents.

The investment policy provisions permit the holding of current bonds held with Standard & Poor's credit ratings of AAA to BB-; however, future bond purchases are restricted to securities with an A rating or better.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

2. Investments (Continued)

At October 31, 2018, the Board's portfolio had the following Standard and Poor's credit ratings:

<u>Credit Rating</u>	<u>Investment Amount</u>
AA+	\$ 2,493,235
AA	29,543
AA-	175,846
A+	537,161
A	526,485
A-	104,300
BBB+	50,992
	<u>\$ 3,917,562</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of the counter party, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Board maintains cash accounts at a commercial bank. Accounts maintained at commercial banks are insured, in the aggregate per depositor, by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The Board had FDIC uninsured cash balances of \$220,573 and \$607,929 at October 31, 2018 and 2017, respectively.

The Board also maintains securities and cash and cash equivalents in a bank investment management firm (Firm). The Firm carries bankers' professional liability insurance with limits up to \$15 million to cover inadvertent actions taken by bank personnel on behalf of fiduciary accounts. In addition, the Firm carries a financial institution bond policy covering criminal activities, employee dishonesty, and electronic and computer crime. At October 31, 2018 and 2017, the FDIC limits of protection were \$250,000 for cash and cash equivalents held with the Firm and the Board had uninsured balances of \$150,861 and \$0, respectively.

Investment income is composed of the following for the years ended October 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and Dividends	\$ 276,175	\$ 135,827
Unrealized and Realized Gains (Losses)	(326,303)	525,412
Investment Fees	<u>(45,228)</u>	<u>(36,520)</u>
	<u>\$ (95,356)</u>	<u>\$ 624,719</u>

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

3. Fair Value Measurements

The Board's investments are recorded at fair value as of October 31, 2018 and 2017. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as 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. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

- Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government or enterprise fund can access at the measurement date.
- Level 2: Investments with inputs – other than quoted prices included with Level 1 – that are observable for an asset either directly or indirectly.
- Level 3: Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

As of October 31, 2018, the Board's investment valuations were as follows:

	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level:				
Corporate Bonds	\$ 1,673,544	\$ 1,673,544	\$	\$
Government Bonds	2,244,018	2,244,018		
Equity Securities and Mutual Funds	6,003,092	6,003,092		
Money Market Account	400,861	400,861		
Publicly Traded Real Estate Investment Trusts	<u>48,559</u>	<u>48,559</u>		
Total Investments by Fair Value Level	\$ <u>10,370,074</u>	\$ <u>10,370,074</u>	\$	\$

As of October 31, 2017, the Board's investment valuations were as follows:

	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level:				
Corporate Bonds	\$ 2,017,315	\$ 2,017,315	\$	\$
Government Bonds	1,518,885	1,518,885		
Equity Securities and Mutual Funds	3,960,419	3,960,419		
Money Market Account	172,599	172,599		
Publicly Traded Real Estate Investment Trusts	<u>46,212</u>	<u>46,212</u>		
Total Investments by Fair Value Level	\$ <u>7,715,430</u>	\$ <u>7,715,430</u>	\$	\$

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

4. Capital Assets

Changes in capital assets for the year ended October 31, 2018 were as follows:

	October 31, 2017	Increases	Decreases	October 31, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 177,000	\$ _____	\$ _____	\$ 177,000
Capital Assets Being Depreciated:				
Building and Improvements	2,318,385	16,879		2,335,264
Office Furniture and Equipment	2,846,104	256,555		3,102,659
Total Capital Assets Being Depreciated	5,164,489	273,434		5,437,923
Less Accumulated Depreciation for:				
Building and Improvements	1,183,421	76,293		1,259,714
Office Furniture and Equipment	2,554,236	166,298		2,720,534
Total Accumulated Depreciation	3,737,657	242,591		3,980,248
Total Capital Assets Being Depreciated	1,426,832	30,843		1,457,675
Capital Assets, net	\$ 1,603,832	\$ 30,843	\$ _____	\$ 1,634,675

Changes in capital assets for the year ended October 31, 2017 were as follows:

	October 31, 2016	Increases	Decreases	October 31, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 177,000	\$ _____	\$ _____	\$ 177,000
Capital Assets Being Depreciated:				
Building and Improvements	2,318,385			2,318,385
Office Furniture and Equipment	2,917,737	170,828	(242,461)	2,846,104
Total Capital Assets Being Depreciated	5,236,122	170,828	(242,461)	5,164,489
Less Accumulated Depreciation for:				
Building and Improvements	1,107,503	75,918		1,183,421
Office Furniture and Equipment	2,662,501	134,196	(242,461)	2,554,236
Total Accumulated Depreciation	3,770,004	210,114	(242,461)	3,737,657
Total Capital Assets Being Depreciated	1,466,118	(39,286)		1,426,832
Capital Assets, net	\$ 1,643,118	\$ (39,286)	\$ _____	\$ 1,603,832

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

5. Pension Plan

The Board has a contributory pension plan covering all full-time employees who have met certain age and length of service requirements. The employees are covered under a 401(k) plan administered by Voya Financial which allows all employees an elective deferral of their salary. The Board makes a matching contribution of up to 6% of an employee's salary.

In November 2009, the Board adopted a 457 plan administered by Qualified Retirement Plan Services, Inc. The plan allows all employees to elect a deferral.

Total pension costs for the years ended October 31, 2018 and 2017 were \$269,035 and \$265,816, respectively. Employee contributions for the years ended October 31, 2018 and 2017 were \$528,198 and \$473,831, respectively.

6. Other Post-Employment Benefit

A. Plan Description:

The Board administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of January 1, 2018, this plan provides postemployment healthcare benefits to retirees of the Board, provided they have at least 15 years of service with the Board and have attained the age 60. The Board may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at January 1, 2018, the date of the latest actuarial valuation:

	<u>Employees</u>
Potentially eligible employees	52
Total Retirees	<u><u>52</u></u>

B. Funding Policy:

The Board reimburses eligible retirees for healthcare coverage that they obtain themselves up to a maximum of 85% of the premium for single coverage under the current group health plan for active employees. The Board has chosen to fund the healthcare benefits on a pay as you go basis.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

6. Other Post-Employment Benefit (Continued)

C. Total OPEB Liability:

The Board's total OPEB (Other Post Employment Benefit) liability of \$505,669 was measured as of January 1, 2018 and October 31, 2018 and was determined by an actuarial valuation as of those dates.

Actuarial Assumptions and other inputs. The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Salary increases	3.00 percent
Discount rate	3.90 percent
Medical trend rate	8.00% initially graded down 0.50% per year to an ultimate rate of 4.00% per year after eight years
Retirement	20% of participants are assumed to retire in their first year of eligibility for postretirement benefits
Termination Table:	The assumed termination rates are based on each participant's years of service
Per Capita Costs:	
Pre-Medicare	Based on the plan's stated maximum reimbursement rate, which is equal to 85% of the current active single-coverage premium rate
Post-Medicare	Based on the premium rates for Medicare Part B, Medicare Supplement Plan F, Medicare Advantage and Medicare Part D prescription drug plans available in the Raleigh, NC area

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

Changes in the Total OPEB Liability

Balance at January 1, 2018	\$ 458,857
Changes for the year:	
Service cost	38,534
Interest cost	14,761
Actual benefit payments	
Additional expected benefit payments	(6,483)
Net changes	46,812
Balance at October 31, 2018	\$ 505,669

Mortality rates were based on the RP-2014 White Collar Headcount-Weighted Mortality Table with generational projection of mortality improvements using the MP-2017 Projection Scale.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

6. Other Post-Employment Benefit (Concluded)

Sensitivity of the total OPEB liability to changes in the discount rate at January 1, 2018. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using the discount rate that is 1-percentage-point lower (2.90%) or 1-percentage-point higher (4.90%) than the current discount rate:

	Current		
	1% Decrease (2.90%)	Discount Rate (3.90%)	1% Increase (4.90%)
Total OPEB Liability	\$ 487,348	\$ 458,857	\$ 431,524

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using medical trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Current		
	1% Decrease	Medical Trend	1% Increase
Total OPEB Liability	\$ 416,105	\$ 458,857	\$ 507,535

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended October 31, 2018, the Board recognized OPEB expense of \$512,152. At October 31, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected Net Benefit Payments	\$	\$ 6,483
Benefit payments and administrative costs made subsequent to the measurement date	\$ -	\$ 6,483

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending October 31 2019	\$ (6,483)
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NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

7. Operating Lease Obligations

The Board is committed on various long-term leases for equipment and vehicles. These operating leases expire at various times over the next five years. Rent expense for these leases for the years ended October 31, 2018 and 2017 was \$32,354 and \$37,692, respectively.

Future minimum lease commitments as of October 31, 2018 are summarized as follows:

<u>Years Ending October 31</u>	
2019	\$ 46,581
2020	16,405
2021	<u>3,912</u>
	<u>\$ 66,898</u>

8. Capital Lease Obligation

The Board has entered into a capital lease agreement for a copier from 2017 to 2022. The asset and liability under capital lease are recorded at the present value of the future minimum lease payments for the asset. The asset is amortized over the related lease term. Amortization expense of the asset under capital lease was \$7,957 and \$1,989 for the years ended October 31, 2018 and 2017, respectively. Equipment held under the capital lease totaled \$39,783 and the related accumulated amortization totaled \$9,946 and \$1,989 at October 31, 2018 and 2017, respectively.

The Board has entered into a capital lease agreement for two copiers from 2018 to 2023. The asset and liability under capital lease are recorded at the present value of the future minimum lease payments for the asset. The asset is amortized over the related lease term. Amortization expense of the assets under capital lease were \$11,136 for the year ended October 31, 2018. Equipment held under the capital lease totaled \$83,517 and the related accumulated amortization totaled \$11,136 at October 31, 2018.

Future capital lease payments are as follows:

<u>Years Ending October 31</u>	
2019	\$ 27,530
2020	27,530
2021	27,530
2022	24,581
2023	<u>7,785</u>
	<u>\$ 114,956</u>

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2018 and 2017

9. Compensated Absences

Changes to accrued vacation are as follows:

	2018	2017
Beginning Accrued Vacation	\$ 369,006	\$ 333,200
Vacation Earned	377,805	357,864
Vacation Used	<u>(347,658)</u>	<u>(322,058)</u>
Ending Accrued Vacation	\$ <u>399,153</u>	\$ <u>369,006</u>

10. Commitments

The Board entered into an agreement with the North Carolina Medical Society to constitute a revised peer review agreement for the purpose of conducting an impaired physician program. This program is administered by North Carolina Physicians Health Program, Inc. (NCPHP), an affiliate of the North Carolina Medical Society. The program has been established for the identification of impaired physicians and physicians' assistants and to provide avenues for treatment programs and rehabilitation of impaired physicians. Expenditures made pursuant to the NCPHP program were \$1,298,297 and \$1,040,126 for the years ended October 31, 2018 and 2017, respectively.

11. Risk Management

Tort claims of Board members up to \$1,000,000 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 protects itself from exposures to loss through the purchase of commercial insurance.

12. ADP TotalSource, Inc.

On October 1, 2015, the Board entered into a co-employer agreement with ADP TotalSource, Inc. to share certain employer responsibilities and to allocate other employer responsibilities between each other. The agreement does not change the underlying employment relationship between any worksite employee and the Board, and ADP TotalSource does not become a party to any employment agreement between the Board and any worksite employee.

13. Subsequent Events

Management of the Board evaluated subsequent events through April 5, 2019, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

SUPPLEMENTARY INFORMATION

NORTH CAROLINA MEDICAL BOARD
Schedule of Changes in the Total OPEB Liability and Related Ratios
October 31, 2018

Service Cost	\$ 38,534
Interest	14,761
Additional expected benefit payments	<u>(6,483)</u>
Net change in total OPEB liability	46,812
Total OPEB liability--January 1, 2018	<u>458,857</u>
Total OPEB liability--October 31, 2018	<u><u>\$ 505,669</u></u>

Covered payroll	4,815,541
Total OPEB liability as a percentage of covered payroll	10.50%

Notes to Schedule:

Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period.
The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.90%