

**NORTH CAROLINA BOARD OF NURSING**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

# **NORTH CAROLINA BOARD OF NURSING**

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## **NORTH CAROLINA BOARD OF NURSING**

### **Management's Discussion and Analysis**

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As management of the North Carolina Board of Nursing (“the Board”) we offer this discussion and analysis of the financial position for the fiscal years ended June 30, 2017 and 2016 with emphasis on the current year. 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**

Assets of the Board totaled \$19,726,722, an increase of \$880,658 from the prior year. Liabilities totaled \$8,388,558, an increase of \$60,093 due primarily to increased deferred revenue at year end.

Net position was \$11,338,164, an increase of \$820,565 from prior year. Of net position, \$6,635,173 reflects equity in capital assets. An additional \$3,579,051 is designated for risk management, i.e., loss due to litigation, disaster preparedness, office operations and IT operations.

Operating revenues totaled \$9,218,423, an increase of \$569,795 or 6.6%, primarily due to an increase in the number of applications for renewal of licenses and more revenue recognized as a result of a fee increase in October 2015.

Operating expenses totaled \$8,752,756, an increase of \$611,254 or 7.5%, due primarily to increases in salaries and related benefits.

Non-operating revenues totaled \$354,898, a decrease of \$175,079, or 33.0%, due primarily to a decrease in investment income.

#### **Overview of the Basic Financial Statements**

This discussion and analysis is an introduction to the Board’s basic financial statements, which are comprised of the following components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to Financial Statements. Supplementary schedules are included which compare actual to budget for the current and prior year. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

Overall, the Statement of Net Position provides information relative to the Board's ability to meet its current and long-term financial obligations.

#### **Basic 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 Statements of Net Position present assets (current and noncurrent), liabilities (current and noncurrent), and net position (total assets less total liabilities) and provide a comparative analysis for the years ended June 30, 2017 and June 30, 2016.

## **NORTH CAROLINA BOARD OF NURSING**

### **Management's Discussion and Analysis**

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#### **Basic Financial Statements (Continued)**

The Statements of Revenues, Expenses and Changes in Net Position present the activities that show the change in net position. Operating revenues are received from services provided, primarily initial and renewal of nurse licensing fees, nurse aide II registry fees and advanced practice - RN revenue. Non-operating revenue is derived from earnings on investments. 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 Statements of Cash Flows present information relative to the sources and uses of cash for operating activities, capital activities and investing activities. The Statements of Cash Flows are useful in analyzing the short-term viability of the Board; i.e., its ability to meet its financial obligations.

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

	Years Ended June 30,		
	2017	2016	2015
Current assets	\$ 1,860,334	\$ 2,237,244	\$ 1,307,755
Noncurrent asset	11,231,215	9,827,352	9,579,400
Net capital assets	6,635,173	6,781,468	7,040,411
Total assets	19,726,722	18,846,064	17,927,566
Current liabilities	4,055,697	4,152,895	3,938,735
Noncurrent liabilities	4,332,861	4,175,570	4,508,335
Total liabilities	8,388,558	8,328,465	8,447,070
Net investment in capital assets	6,635,173	6,619,792	6,162,089
Unrestricted	4,702,991	3,897,807	3,318,407
Total net position	\$ 11,338,164	\$ 10,517,599	\$ 9,480,496
Operating revenues	\$ 9,218,423	\$ 8,648,628	\$ 8,389,464
Operating expenses	8,752,756	8,141,502	7,943,457
Operating income	465,667	507,126	446,007
Non-operating revenues	354,898	529,977	260,208
Changes in net position	\$ 820,565	\$ 1,037,103	\$ 706,215

#### **Factors Impacting Future Periods**

The Board's financial position remains strong. The main factor having an economic impact on future periods is the number of nurses that renew their biennial license. The primary revenue source consists of renewal and reinstatement fees paid by licensed nurses which accounts for approximately 75% of operating revenue. The number of licensees has shown a steady increase and this trend is expected to continue based on the number of newly licensed nurses by the Board per year.

The Board entered into an Enhanced Nurse Licensure Compact (eNLC) with an implementation date of January 19, 2018. The eNLC allows nurses to apply for a multi-state license and have more mobility across state borders without obtaining additional licenses. The eNLC increases access to care while maintaining public protection. There are currently 26 states participating in the eNLC with the ultimate goal of having all 50 states participate.

**NORTH CAROLINA BOARD OF NURSING**  
**Management's Discussion and Analysis**

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**Factors Impacting Future Periods (Continued)**

For the last 5 years the Board made additional mortgage payments to shorten the term of the loan and reduce the cost of the loan. During the year ended June 30, 2017, the remaining balance of the mortgage was paid off.

**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 North Carolina Board of Nursing, P.O. Box 2129, Raleigh, NC 27602 or 919-782-3211.

## **Independent Auditor's Report**

Members of the Board  
North Carolina Board of Nursing  
Raleigh, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the North Carolina Board of Nursing (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board's basic 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 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 audits 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 Board of Nursing as of June 30, 2017 and 2016, and its changes in financial position and cash flows for the years 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 Board of Nursing and do not purport to and do not present fairly the financial position of the State of North Carolina as of June 30, 2017 and 2016, nor the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 3, 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.

#### ***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of budget and actual - revenues, expenses, and changes in net position, on pages 19 - 20, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

*Bernard Robinson & Company, L.L.P.*

Raleigh, North Carolina  
October 11, 2017

**NORTH CAROLINA BOARD OF NURSING**  
**Statements of Net Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS:</b>		
Current assets:		
Cash	\$ 1,011,634	\$ 937,621
Accrued interest receivable	42,279	38,647
Accounts receivable	14,852	14,754
Deposits on assets	-	34,838
Prepaid expenses and other assets	113,408	82,591
Current portion of investments	678,161	1,030,664
Deferred compensation investments	-	98,129
Total current assets	<u>1,860,334</u>	<u>2,237,244</u>
Non-current assets:		
Investments	11,231,215	9,827,352
Total noncurrent assets	<u>11,231,215</u>	<u>9,827,352</u>
Capital assets, net of depreciation	<u>6,635,173</u>	<u>6,781,468</u>
Total assets	<u>19,726,722</u>	<u>18,846,064</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable and accrued liabilities	164,814	133,948
Current portion of unearned revenues	3,890,883	3,739,449
Deferred compensation liability	-	98,129
Current portion of accrued vacation	-	19,693
Current portion of note payable	-	161,676
Total current liabilities	<u>4,055,697</u>	<u>4,152,895</u>
Noncurrent liabilities:		
Accrued vacation	441,979	436,120
Unearned revenues	3,890,882	3,739,450
Total noncurrent liabilities	<u>4,332,861</u>	<u>4,175,570</u>
Total liabilities	<u>8,388,558</u>	<u>8,328,465</u>
<b>NET POSITION:</b>		
Invested in capital assets	6,635,173	6,619,792
Unrestricted net assets	<u>4,702,991</u>	<u>3,897,807</u>
Total net position	<u>\$ 11,338,164</u>	<u>\$ 10,517,599</u>



**NORTH CAROLINA BOARD OF NURSING**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
License renewals	\$ 6,752,178	\$ 6,286,836
Examination fees	530,205	512,527
Reinstatements	152,320	182,248
Endorsements - in-state	938,548	837,446
Verifications - out-of-state	3,570	3,245
Mailing labels	94,070	82,408
Hearing and settlement fees	15,923	9,600
Nurses aide registry fees	202,158	212,716
APRN revenue	441,678	435,460
Other operating income	87,773	86,142
Total operating revenues	<u>9,218,423</u>	<u>8,648,628</u>
Operating expenses:		
Salaries and related benefits	6,638,996	6,150,682
Operations	1,844,204	1,735,493
Elections	6,390	6,390
Conferences and conventions	105,114	113,604
Board meetings	56,397	39,161
Hearings	53,489	42,722
Committee meetings	26,883	29,252
Other regulatory services	21,283	24,198
Total operating expenses	<u>8,752,756</u>	<u>8,141,502</u>
Operating income	<u>465,667</u>	<u>507,126</u>
Non-operating revenues (expenses):		
Net investment income	355,332	550,931
Interest expense	(434)	(20,954)
Total non-operating revenues	<u>354,898</u>	<u>529,977</u>
Changes in net position	820,565	1,037,103
Net position - beginning of year	<u>10,517,599</u>	<u>9,480,496</u>
Net position - end of year	<u>\$ 11,338,164</u>	<u>\$ 10,517,599</u>

**NORTH CAROLINA BOARD OF NURSING****Statements of Cash Flows****Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Cash received from fees	<b>\$ 9,521,191</b>	\$ 9,293,465
Cash payments to employees for services	<b>(6,652,830)</b>	(6,121,437)
Cash payments to suppliers for goods and services	<b>(1,572,237)</b>	(1,626,061)
Cash payments for other operating expenses	<b>(248,273)</b>	(231,129)
Net cash provided by operating activities	<b>1,047,851</b>	1,314,838
Cash flows from capital and financing activities:		
Principal payments on note	<b>(161,336)</b>	(716,646)
Interest payments on note	<b>(434)</b>	(20,954)
Acquisition of capital assets	<b>(112,068)</b>	(21,001)
Net cash used in capital and financing activities	<b>(273,838)</b>	(758,601)
Cash flows from investing activities:		
Purchases of investments	<b>(1,214,859)</b>	(4,225,879)
Sales of investments	<b>295,000</b>	3,501,521
Net investment income	<b>219,859</b>	224,735
Net cash used in investing activities	<b>(700,000)</b>	(499,623)
Increase in cash	<b>74,013</b>	56,614
Cash - beginning of year	<b>937,621</b>	881,007
Cash - end of year	<b>\$ 1,011,634</b>	\$ 937,621
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<b>\$ 465,667</b>	\$ 507,126
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	<b>293,201</b>	279,944
Changes in assets and liabilities:		
Accounts receivable	<b>(98)</b>	(4,501)
Deposits on assets	<b>-</b>	(34,838)
Prepaid expenses and other assets	<b>(30,817)</b>	(9,348)
Deferred compensation investments	<b>98,129</b>	(21,586)
Accounts payable and accrued liabilities	<b>30,866</b>	(102,128)
Deferred compensation liability	<b>(98,129)</b>	21,586
Accrued vacation	<b>(13,834)</b>	29,245
Unearned revenues	<b>302,866</b>	649,338
Total adjustments	<b>582,184</b>	807,712
Net cash provided by operating activities	<b>\$ 1,047,851</b>	\$ 1,314,838
Supplemental disclosures of non-cash financing transactions:		
Capitalization of fixed assets	<b>\$ 34,838</b>	\$ -

**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Description of Organization**

The North Carolina Board of Nursing (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 Governor of the State of North Carolina appoints one of the 14 board members and the General Assembly appoints two members. The remaining 11 members are elected by nurses holding active licenses to practice in the State of North Carolina. All of the members are subject to the State Government Ethics Act.

The Board's function is to maintain minimum standards of nursing care through the examination and licensure of all who engage in the practice of nursing and to monitor nursing education programs. The Board's operations are funded through license renewal fees and various other fees.

**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.

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.

**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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

**Basis of Presentation (Continued)**

The Board classifies its revenues as operating or non-operating in the accompanying Statements 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 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*.

**Basis of Accounting**

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.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash. Cash balances held temporarily in the investment portfolio until reinvested are not included in cash and cash equivalents. At June 30, 2017, the Board had \$866,574 in cash and cash equivalents at certain financial institutions that exceeded amounts insured by the Federal Depository Insurance Corporation ("FDIC").

**Investments**

Investments consist of cash sweep accounts, government and corporate bonds, mutual funds, and certificates of deposit held in a brokerage account. Cash sweep accounts and fixed income securities maturing within the next fiscal year are shown as current. Investments are reported at fair value.

**Accounts Receivable**

Accounts receivable is comprised of administrative hearing and settlement fees due from licensees. Management uses the direct write off method for uncollectible amounts because it closely approximates the expense under the allowance method.

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Capital assets that have a cost over \$5,000 and are not considered software are capitalized and are depreciated using the straight-line method over their useful lives. Capital assets that are considered software and have a total installation cost over \$500,000 are capitalized and are depreciated using the straight-line method over their useful lives.

Depreciation is computed over the following useful lives:

Buildings	40 years
Furniture, equipment and software	5 - 10 years

**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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

**Capital Assets (Continued)**

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

**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.

**Accrued Vacation Pay**

The vacation policy of the Board provides for the accumulation of up to 40 days earned vacation leave with such leave being fully vested when earned. Accumulated earned vacation at June 30, 2017 and 2016, is \$441,979 and \$455,813, respectively.

**Unearned Revenues**

Licenses are renewed for a period of two years on a birth month renewal system. License renewal fees received are deferred and recognized as revenue over the two-year period to which they relate. Examinations and endorsements are processed at any time during the year. The initial license period includes the period from the examination or endorsement date to the birth month of the licensee which occurs in the following thirteen to twenty-four month period. In addition, a portion of the examination or endorsement fee representing estimated direct costs is recognized upon initial application with the remaining fee being deferred and recognized as revenue over the license period.

**Net Position**

*Investment in capital assets* - This represents the Board's total investment in capital assets, net of accumulated depreciation and related debt.

*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.

**Budgetary Data**

A budget for fiscal year ended June 30, 2017, was adopted by the Board and is prepared and reported on the accrual basis of accounting. Although budgeted amounts lapse at year-end, the Board retains its unexpended net assets to fund expenses of the succeeding year.

**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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

**Use of Estimates**

The preparation of financial statements in conformity with GAAP 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 and assumptions, resulting in adjustments in future periods.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The Board has a formal investment policy to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the Board. The Board maintains investments in separate accounts managed by the same broker.

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, 2017, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$11,409,376.

The Board's deposits include cash on deposit with financial institutions and a money market account totaling \$1,116,574.

The Board is subject to the following risks:

*Custodial Credit Risk.* Custodial credit risk is 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 up to \$250,000.

*Interest Rate Risk.* Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments.

*Credit risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2017, the Board's money market funds and certificates of deposit were unrated, and the Board's bond portfolio had the following credit ratings as rated by Moody's Investors Service:

<u>Credit Rating</u>	
AAA	\$2,048,597
A3	312,622
A2	154,524
A1	314,328
BAA1	79,897

**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Investments are presented at fair value based on the market prices at June 30, 2017 and 2016.

The Board has approved an investment policy that allows for 65% - 70% invested in fixed income securities and 30% - 35% invested in equities, with a target allocation of 75% - 80% bonds and 20% - 25% stock.

The maturities of the Board's fixed income investments as of June 30, 2017, were as follows:

	Investment Amount
0 - 5 years	\$4,778,585
6 - 10 years	3,699,791
	<u>\$8,478,376</u>

**NOTE 3 - FAIR VALUE MEASUREMENTS**

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 tables set forth by level the fair value hierarchy of the Board's financial assets accounted for at fair value on a recurring basis as of June 30, 2017:

	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	\$ 2,048,597	\$ -	\$ 2,048,597	\$ -
Certificates of deposit	5,568,408	-	5,568,408	-
Corporate bonds	705,659	-	705,659	-
Foreign bonds	155,712	-	155,712	-
Equities	2,999,487	2,999,487	-	-
	<u>\$11,477,863</u>	<u>\$2,999,487</u>	<u>\$ 8,478,376</u>	<u>\$ -</u>

**NORTH CAROLINA BOARD OF NURSING****Notes to Financial Statements****NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)**

The following tables set forth by level the fair value hierarchy of the Board's financial assets accounted for at fair value on a recurring basis as of June 30, 2016:

	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	\$ 2,238,922	\$ -	\$ 2,238,922	\$ -
Certificates of deposit	4,227,797	-	4,227,797	-
Corporate bonds	727,939	-	727,939	-
Foreign bonds	234,102	-	234,102	-
Equities	2,398,589	2,398,589	-	-
Deferred compensation plan mutual funds	98,129	98,129	-	-
	<u>\$ 9,925,478</u>	<u>\$2,496,718</u>	<u>\$ 7,428,760</u>	<u>\$ -</u>

The investment balances on the statement of net position include cash balances held temporarily in the investment portfolio until reinvestment, and therefore not included in the fair value hierarchy above in the amount of \$431,513 and \$1,030,667 at June 30, 2017 and 2016, respectively.

**NOTE 4 - CAPITAL ASSETS**

Capital assets are comprised of the following:

	Cost 6/30/16	Acquisitions	Retirements/ Disposals	Cost 6/30/17	Accum. Depreciation	Net Amount
Land	\$ 2,386,585	\$ -	\$ -	\$ 2,386,585	\$ -	\$ 2,386,585
Buildings	4,838,297	-	-	4,838,297	(862,732)	3,975,565
Furniture/ equipment/ software	1,519,933	146,907	-	1,666,840	(1,393,817)	273,023
	<u>\$8,744,815</u>	<u>\$ 146,907</u>	<u>\$ -</u>	<u>\$8,891,722</u>	<u>\$(2,256,549)</u>	<u>\$6,635,173</u>

  

	Cost 6/30/15	Acquisitions	Retirements/ Disposals	Cost 6/30/16	Accum. Depreciation	Net Amount
Land	\$ 2,386,585	\$ -	\$ -	\$ 2,386,585	\$ -	\$ 2,386,585
Buildings	4,838,297	-	-	4,838,297	(741,649)	4,096,648
Furniture/ equipment/ software	1,498,932	21,001	-	1,519,933	(1,221,698)	298,235
	<u>\$8,723,814</u>	<u>\$ 21,001</u>	<u>\$ -</u>	<u>\$8,744,815</u>	<u>\$(1,963,347)</u>	<u>\$6,781,468</u>



**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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**NOTE 5 - NOTE PAYABLE**

The Board converted a construction loan payable into a note payable in July 2010, upon completion of the Board's operating facility. The original note payable balance was \$3,400,000 and called for 162 monthly payments of \$19,800 including interest at 3.54% with a final balloon payment due January 15, 2024. The Board made an additional principal payment of \$500,000 during the fiscal year ended June 30, 2016 and made an additional principal payment of \$142,310 during the fiscal year ended June 30, 2017 to pay off the remaining principal balance. Interest expense for the years ended June 30, 2017 and 2016, totaled \$434 and \$20,954, respectively.

**NOTE 6 - CHANGE IN LONG-TERM LIABILITIES**

Change in long-term liabilities is as follows:

	Balance 6/30/16	Increase	Decreases	Balance 6/30/17	Current Portion of balance
Deferred compensation liability	\$ 98,129	\$ -	\$ 98,129	\$ -	\$ -
Accrued vacation	455,813	390,472	404,306	441,979	-
Deferred revenues	7,478,899	7,239,024	6,936,158	7,781,765	3,890,883
Note payable	161,676	-	161,676	-	-
Long-term liabilities	<u>\$8,194,517</u>	<u>\$ 7,629,496</u>	<u>\$7,600,269</u>	<u>\$ 8,223,744</u>	<u>\$3,890,883</u>

	Balance 6/30/15	Increase	Decreases	Balance 6/30/16	Current Portion of balance
Deferred compensation liability	\$ 76,543	\$ 21,586	\$ -	\$ 98,129	\$ 98,129
Accrued vacation	426,568	349,589	320,344	455,813	19,693
Deferred revenues	6,829,561	7,014,327	6,364,989	7,478,899	3,739,449
Note payable	878,322	-	716,646	161,676	161,676
Long-term liabilities	<u>\$8,210,994</u>	<u>\$ 7,385,502</u>	<u>\$7,401,979</u>	<u>\$ 8,194,517</u>	<u>\$4,018,947</u>

**NOTE 7 - NET POSITION**

The Board has reserved a portion of the unrestricted net assets to indicate their plans for how financial resources will be used in a future period. Future uses are categorized as either pre-planned special projects or unforeseen financial emergencies which may require a large, non-recurring outlay of funds.

**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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**NOTE 7 - NET POSITION (Continued)**

Capital asset replacement of at least \$6,000 is added each year per prior Board action. The Board's reserved unrestricted net assets at June 30, 2017 and 2016, are summarized as follows:

	Balance 6/30/16	Transfers and Receipts	Transfers and Expenditures	Balance 6/30/17
Information systems operations	\$ 744,369	\$ 88,691	\$ (193,403)	\$ 639,657
Capital asset replacement	562,070	150,000	(8,724)	703,346
Office operations	286,359	111,309	(61,620)	336,048
Research projects	-	150,000	-	150,000
Disaster recovery	250,000	-	-	250,000
Legal defense/risk management	1,500,000	-	-	1,500,000
	<u>\$ 3,342,798</u>	<u>\$ 500,000</u>	<u>\$ (263,747)</u>	<u>\$ 3,579,051</u>

  

	Balance 6/30/15	Transfers and Receipts	Transfers and Expenditures	Balance 6/30/16
Information systems operations	\$ 798,117	\$ -	\$ (53,748)	\$ 744,369
Capital asset replacement	412,070	150,000	-	562,070
Office operations	260,627	75,000	(49,268)	286,359
Disaster recovery	250,000	-	-	250,000
Legal defense/risk management	1,148,372	351,692	(64)	1,500,000
	<u>\$ 2,869,186</u>	<u>\$ 576,692</u>	<u>\$ (103,080)</u>	<u>\$ 3,342,798</u>

**NOTE 8 - RETIREMENT PLAN**

The Board contributes to the North Carolina Licensing Boards Retirement Savings Plan ("Plan"), a defined contribution plan. The Plan was established to provide retirement benefits for employees of State boards or agencies who did not elect by resolution to cause their employees to be eligible to become members of the Teachers' and State Employees' Retirement System and for employees hired after July 1, 1983, by an electing board or agency. The Plan is administered by a committee with authority to amend the Plan, comprised of the executive directors of the participating boards and agencies.

Participating employees must contribute at least 6% of their gross compensation and the Board matches those contributions 100%. The employees' contributions are immediately 100% vested; the Board's matching contributions are 100% vested after 5 years of credited service. For vesting purposes, an employee must complete 1,000 hours of service during the Plan year.

Each participant's account is credited with their individual contributions, the Board's matching contributions, and Plan earnings and forfeitures of terminated participants' non-vested accounts. Allocations are based on participant earnings and account balances as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

**NORTH CAROLINA BOARD OF NURSING**  
**Notes to Financial Statements**

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**NOTE 8 - RETIREMENT PLAN (Continued)**

Total contributions to the Plan for the year ended June 30, 2017, were \$817,961, which consisted of \$294,145 from the Board and \$523,816 from employees. For the year ended June 30, 2016, total contributions to the Plan were \$761,936, which consisted of \$272,193 from the Board and \$489,743 from employees. During the years ended June 30, 2017 and 2016, forfeitures were not utilized to reduce employer matching contributions.

**NOTE 9 - OPERATING LEASES**

The Board signed a lease agreement in July 2015 for four copiers under a four-year operating lease expiring in 2019. Total expense charged to operations under the copier leases was \$12,340 and \$12,280 for the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments are as follows:

2018	\$ 12,033
2019	12,033
2020	1,003
	<u>\$ 25,069</u>

**NOTE 10 - DEFERRED COMPENSATION PLAN**

In September 2011, the Board approved and established a deferred compensation plan for the Executive Director (ED) under Section 457 of the Internal Revenue Code. This plan allows the Board to fund the plan with up to the maximum amount allowed by law on a fiscal year basis and for the ED to select the investments that the funds are invested in. The balance in the deferred compensation account becomes fully vested conditional on, among other things, the ED's continuous employment for five years following the effective date of the plan on June 30, 2011. The investments are retained by the Board until the time that the ED becomes fully vested. Upon vesting, the entire account balance, including the Board's contributions and earnings, becomes the property of the ED. The Board contributed \$18,000 and \$21,500 to the plan for the years ended June 30, 2017 and 2016, respectively. In October 2016, the plan's assets were liquidated and relinquished to the ED. The value of the deferred compensation plan investments was \$0 and \$98,129 at June 30, 2017 and 2016, respectively.

**NOTE 11 - 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, dishonesty bond, cyber, anti-trust, employment practices and comprehensive security policies through independent insurance agents.

## **NORTH CAROLINA BOARD OF NURSING**

### **Notes to Financial Statements**

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#### **NOTE 12 - COMMITMENTS**

During 2017, the Board entered into a contract with an unrelated party in the amount of \$65,000 for website redesign. At June 30, 2017, \$16,250 remained payable on the contract for work not yet completed.

#### **NOTE 13 - SUBSEQUENT EVENTS**

Management of the Board evaluated subsequent events through October 11, 2017, which is the date the financial statements were available to be issued. Except for those items disclosed in the notes, management discovered no other subsequent events that should be disclosed.

The audit was conducted in approximately 140 hours at a cost of \$16,500.

## **SUPPLEMENTARY INFORMATION**

**NORTH CAROLINA BOARD OF NURSING****Statement of Revenues, Expenses and Changes in Net Position - Actual and Budget  
Year Ended June 30, 2017**

	Actual	(Unaudited) Budget	Actual Over/(Under) Budget
Operating revenues:			
License renewals	\$ 6,752,178	\$ 6,412,669	\$ 339,509
Examination fees	530,205	531,167	(962)
Reinstatements	152,320	180,488	(28,168)
Endorsements - in-state	938,548	799,743	138,805
Verifications - out-of-state	3,570	-	3,570
Mailing labels	94,070	63,108	30,962
Hearing and settlement fees	15,923	-	15,923
Nurses aide registry fees	202,158	220,904	(18,746)
APRN revenue	441,678	386,838	54,840
Other operating income	87,773	98,710	(10,937)
Total operating revenues	9,218,423	8,693,627	524,796
Operating expenses:			
Salaries and related benefits	6,638,996	6,849,354	(210,358)
Operations	1,844,204	1,746,977	97,227
Elections	6,390	8,800	(2,410)
Conferences and conventions	105,114	160,680	(55,566)
Board meetings	56,397	69,443	(13,046)
Hearings	53,489	59,351	(5,862)
Committee meetings	26,883	37,368	(10,485)
Other regulatory services	21,283	1,654	19,629
Total operating expenses	8,752,756	8,933,627	(180,871)
Operating income (loss)	465,667	(240,000)	705,667
Non-operating revenues (expenses):			
Net investment income	355,332	240,000	115,332
Interest expense	(434)	-	(434)
Total non-operating revenues	354,898	240,000	114,898
Changes in net position	820,565	\$ -	\$ 820,565
Net position - beginning of year	10,517,599		
Net position - end of year	\$ 11,338,164		

**NORTH CAROLINA BOARD OF NURSING****Statement of Revenues, Expenses and Changes in Net Position - Actual and Budget  
Year Ended June 30, 2016**

	Actual	(Unaudited) Budget	Actual Over/(Under) Budget
Operating revenues:			
License renewals	\$ 6,286,836	\$ 6,395,789	\$ (108,953)
Examination fees	512,527	521,834	(9,307)
Reinstatements	182,248	180,488	1,760
Endorsements - in-state	837,446	787,993	49,453
Verifications - out-of-state	3,245	-	3,245
Mailing labels	82,408	50,433	31,975
Hearing and settlement fees	9,600	-	9,600
Nurses aide registry fees	212,716	235,420	(22,704)
APRN revenue	435,460	335,423	100,037
Other operating income	86,142	90,660	(4,518)
Total operating revenues	8,648,628	8,598,040	50,588
Operating expenses:			
Salaries and related benefits	6,150,682	6,480,257	(329,575)
Operations	1,735,493	2,016,263	(280,770)
Elections	6,390	8,800	(2,410)
Conferences and conventions	113,604	141,000	(27,396)
Board meetings	39,161	75,280	(36,119)
Hearings	42,722	58,752	(16,030)
Committee meetings	29,252	53,889	(24,637)
Other regulatory services	24,198	3,799	20,399
Total operating expenses	8,141,502	8,838,040	(696,538)
Operating income (loss)	507,126	(240,000)	747,126
Non-operating revenues (expenses)			
Net investment income	550,931	240,000	310,931
Interest expense	(20,954)	-	(20,954)
Total non-operating revenues	529,977	240,000	289,977
Changes in net position	1,037,103	\$ -	\$ 1,037,103
Net position - beginning of year	9,480,496		
Net position - end of year	\$ 10,517,599		