

NORTH CAROLINA BOARD OF NURSING

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2021 AND 2020



NORTH CAROLINA BOARD OF NURSING

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NORTH CAROLINA BOARD OF NURSING

Management's Discussion and Analysis

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, 2021 and 2020 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 \$26,698,468, an increase of \$2,734,922 from the prior year, due primarily to increased cash and investment balances. Liabilities totaled \$9,597,219, an increase of \$300,572, reflecting increases in payables, accrued vacation and unearned revenues.

Net position was \$17,101,249, an increase of \$2,434,350 from prior year. Of total net position, \$5,966,282 reflects equity in capital assets. An additional \$8,668,815 is designated for risk management related to potential litigation, disaster preparedness, capital asset replacement, research projects, office operations, and IT operations.

Operating revenues totaled \$10,634,359, an increase of \$402,558, or 3.9%, primarily due to increases in the number of applications for renewal of licenses and APRN revenue.

Operating expenses totaled \$9,837,253, an increase of \$93,083 or 1%, due primarily to increases in salaries and related benefits, research projects, and operational expenses to facilitate a remote workforce; offset by a decrease in conference and convention expenses.

Non-operating revenues totaled \$1,637,244, an increase of \$916,784 or 127.2%, due primarily to recent investment performance driven by fluctuating market conditions.

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 years. 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 costs 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, 2021 and June 30, 2020.

NORTH CAROLINA BOARD OF NURSING

Management's Discussion and Analysis

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,		
	2021	2020	2019
Current assets	\$ 4,033,906	\$ 4,618,486	\$ 2,736,702
Noncurrent asset	16,698,280	13,214,631	13,371,211
Net capital assets	5,966,282	6,130,429	6,278,211
Total assets	26,698,468	23,963,546	22,386,124
Current liabilities	4,668,750	4,482,941	4,285,471
Noncurrent liabilities	4,928,469	4,813,706	4,641,845
Total liabilities	9,597,219	9,296,647	8,927,316
Net investment in capital assets	5,966,282	6,130,429	6,278,211
Unrestricted	11,134,967	8,536,470	7,180,597
Total net position	\$ 17,101,249	\$ 14,666,899	\$ 13,458,808
Operating revenues	\$ 10,634,359	\$ 10,231,801	\$ 9,960,896
Operating expenses	9,837,253	9,744,170	9,427,145
Operating income	797,106	487,631	533,751
Non-operating revenues	1,637,244	720,460	846,326
Changes in net position	\$ 2,434,350	\$ 1,208,091	\$ 1,380,077

Factors Impacting Future Periods

North Carolina Board of Nursing's Position remains strong with key financial performance indicators met and/or exceeded during the fiscal year 2020-2021. The primary factor having an economic impact is the continued increase in the number of RNs and LPNs licensed to practice in the state, totaling over 170,000. The number of new licenses issued averages 13,000 per year, and it is expected that this trend will continue.

North Carolina Board of Nursing is part of a Nurse Licensure Compact ("NLC") which facilitates the mobility of nurses across state lines without having to pay an additional licensing (Endorsement) fee in that state. There are currently 38 states that participate in the NLC. As more states join the NLC, there could be minimal impact on the endorsement fees received.

NORTH CAROLINA BOARD OF NURSING

Management's Discussion and Analysis

Factors Impacting Future Periods (Continued)

The Board's operations may be affected by the ongoing outbreak of the coronavirus disease (COVID-19). The ultimate disruption which the outbreak may cause is uncertain. Some reports indicate that nurses may retire at a higher rate due to burnout from work-related stress. A report by the American Association of Colleges of Nursing indicates "that faculty shortage at nursing schools across the country are limiting student capacity at a time when the need for professional registered nurses continues to grow." Steps are being taken to identify strategies to address the shortage.

The majority of the Board's investments are positioned well in safer fixed income securities and continue to perform with less risk in more challenging overall markets.

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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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. Our opinion is not modified with respect to this matter.

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 18 - 19, are presented for purposes of additional analysis and are 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
September 8, 2021

NORTH CAROLINA BOARD OF NURSING
Statements of Net Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS:		
Current assets:		
Cash	\$ 1,551,678	\$ 1,218,623
Accrued interest receivable	20,707	37,928
Accounts receivable	14,715	15,732
Prepaid expenses and other assets	123,142	113,611
Current portion of investments	2,323,664	3,232,592
Total current assets	<u>4,033,906</u>	<u>4,618,486</u>
Noncurrent assets:		
Investments	16,677,749	13,214,631
Deferred compensation investments	20,531	-
Total noncurrent assets	<u>16,698,280</u>	<u>13,214,631</u>
Capital assets, net of depreciation	<u>5,966,282</u>	<u>6,130,429</u>
Total assets	<u>26,698,468</u>	<u>23,963,546</u>
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	358,896	256,431
Current portion of unearned revenues	4,309,854	4,226,510
Total current liabilities	<u>4,668,750</u>	<u>4,482,941</u>
Noncurrent liabilities:		
Accrued vacation	598,085	587,197
Unearned revenues	4,309,853	4,226,509
Deferred compensation liability	20,531	-
Total noncurrent liabilities	<u>4,928,469</u>	<u>4,813,706</u>
Total liabilities	<u>9,597,219</u>	<u>9,296,647</u>
NET POSITION:		
Invested in capital assets	5,966,282	6,130,429
Unrestricted net assets	<u>11,134,967</u>	<u>8,536,470</u>
Total net position	<u>\$ 17,101,249</u>	<u>\$ 14,666,899</u>

NORTH CAROLINA BOARD OF NURSING
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
License renewals	\$ 7,572,980	\$ 7,394,395
Examination fees	632,102	587,933
Reinstatements	126,720	150,960
Endorsements - in-state	1,023,043	879,559
Verifications - out-of-state	1,440	2,870
Mailing labels	114,150	103,539
Hearing and settlement fees	17,100	16,767
Nurses aide registry fees	157,073	176,261
APRN revenue	889,010	834,743
Other operating income	100,741	84,774
Total operating revenues	<u>10,634,359</u>	<u>10,231,801</u>
Operating expenses:		
Salaries and related benefits	7,943,059	7,805,843
Operations	1,800,796	1,765,984
Conferences and conventions	19,471	69,073
Board meetings	16,253	31,683
Hearings	45,174	44,889
Committee meetings	11,774	21,006
Other regulatory services	726	5,692
Total operating expenses	<u>9,837,253</u>	<u>9,744,170</u>
Operating income	<u>797,106</u>	<u>487,631</u>
Non-operating revenues:		
Net investment income	1,637,244	720,460
Total non-operating revenues	<u>1,637,244</u>	<u>720,460</u>
Changes in net position	2,434,350	1,208,091
Net position - beginning of year	<u>14,666,899</u>	<u>13,458,808</u>
Net position - end of year	<u>\$ 17,101,249</u>	<u>\$ 14,666,899</u>

NORTH CAROLINA BOARD OF NURSING
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from fees	\$ 10,802,064	\$ 10,581,537
Cash payments to employees for services	(7,932,171)	(7,796,910)
Cash payments to suppliers for goods and services	(1,534,333)	(1,586,162)
Cash payments for other operating expenses	(92,672)	(166,651)
Net cash provided by operating activities	<u>1,242,888</u>	<u>1,031,814</u>
Cash flows from capital and financing activities:		
Acquisition of capital assets	(10,108)	(28,689)
Net cash used in capital and financing activities	<u>(10,108)</u>	<u>(28,689)</u>
Cash flows from investing activities:		
Purchases of investments	(1,269,293)	(1,141,423)
Net investment income	369,568	342,368
Net cash used in investing activities	<u>(899,725)</u>	<u>(799,055)</u>
Increase in cash	333,055	204,070
Cash - beginning of year	1,218,623	1,014,553
Cash - end of year	<u>\$ 1,551,678</u>	<u>\$ 1,218,623</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 797,106	\$ 487,631
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	174,255	176,471
Changes in assets and liabilities:		
Accounts receivable	1,017	23,880
Prepaid expenses and other assets	(9,531)	(25,499)
Deferred compensation investments	(20,531)	-
Accounts payable and accrued liabilities	102,465	34,542
Deferred compensation liability	20,531	-
Accrued vacation	10,888	8,933
Unearned revenues	166,688	325,856
Total adjustments	<u>445,782</u>	<u>544,183</u>
Net cash provided by operating activities	<u>\$ 1,242,888</u>	<u>\$ 1,031,814</u>

NORTH CAROLINA BOARD OF NURSING

Notes to Financial Statements

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 ("U.S. 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 GAAP 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 resource 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

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 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*. Non-operating revenues include activities that have characteristics of non-exchange transactions and consist primarily of investing type activities.

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.

Investments

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

Accounts Receivable

Accounts receivable is comprised primarily 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. Write-offs totaled approximately \$10,800 and \$23,500 during the years ended June 30, 2021 and 2020, respectively.

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

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.

NORTH CAROLINA BOARD OF NURSING

Notes to Financial Statements

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

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, 2021 and 2020, is \$598,085 and \$587,197, respectively.

Revenue Recognition

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

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

Unrestricted net assets - 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 (see Note 6).

Budgetary Data

A budget for fiscal year ended June 30, 2021, 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.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

NORTH CAROLINA BOARD OF NURSING

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

All funds of the Board are deposited in board-designated official depositories or brokerage firms. The Board's deposits include cash on deposit in financial institutions, money market accounts, fixed income securities, mutual funds, and equity securities. At June 30, 2021, deposits in financial institutions, with a carrying value of \$20,573,622, consists of cash and investments, as shown on the statements of net position. The investments are fixed income securities in the amount of \$4,978,034, mutual funds in the amount of \$7,452,650, equity securities in the amount of \$6,160,875, deferred compensation investments in the amount of \$20,531 and cash sweep balances in the amount of \$409,854 held in a money market sweep account until reinvested.

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 the Board. The Board does not have a formal deposit policy for custodial credit risk.

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, 2021, board investments included fixed income securities, mutual funds, and equity securities totaling \$18,612,090. At June 30, 2021, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$18,112,090.

The Board's deposits include cash on deposit with financial institutions, money market accounts, and brokerage cash sweep accounts, with bank balances totaling \$1,939,260 at June 30, 2021. The Board's deposits with each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2021, the Board had \$1,423,655 in deposits at financial institutions that exceeded amounts insured by the FDIC.

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, 2021, 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>	
AA3	\$ 77,155
A3	152,904
A2	153,349
A1	75,169
BAA1	78,531

Investments are presented at fair value based on the market prices at June 30, 2021 and 2020.

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

NORTH CAROLINA BOARD OF NURSING
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The maturities of the Board's fixed income investments as of June 30, 2021, were as follows:

	Investment Amount
0 - 5 years	<u>\$4,978,033</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, 2021 and 2020:

2021				
	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 4,440,926	\$ -	\$ 4,440,926	\$ -
Corporate bonds	383,414	-	383,414	-
Foreign bonds	153,694	-	153,694	-
Equities	6,160,875	6,160,875	-	-
Deferred compensation investments	20,531	20,531	-	-
	<u>\$11,159,440</u>	<u>\$6,181,406</u>	<u>\$4,978,034</u>	<u>\$ -</u>
2020				
	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 7,952,797	\$ -	\$ 7,952,797	\$ -
Corporate bonds	465,363	-	465,363	-
Foreign bonds	157,517	-	157,517	-
Equities	4,217,380	4,217,380	-	-
	<u>\$12,793,057</u>	<u>\$4,217,380</u>	<u>\$8,575,677</u>	<u>\$ -</u>

NORTH CAROLINA BOARD OF NURSING

Notes to Financial Statements

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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 \$409,854 and \$398,218 at June 30, 2021 and 2020, respectively.

In addition, the investment balance on the statement of net position includes open end mutual funds measured at the net asset value (NAV) and therefore not included in the fair value hierarchy. As of June 30, 2021 and 2020, investments measured at the NAV totaled \$7,452,650 and \$3,255,948, respectively.

NOTE 4 - CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost 6/30/2020	Acquisitions	Retirements/ Disposals	Cost 6/30/2021	Accum. Depreciation	Net Amount
Land	\$ 2,386,585	\$ -	\$ -	\$ 2,386,585	\$ -	\$ 2,386,585
Buildings	4,838,297	-	-	4,838,297	(1,344,619)	3,493,678
Furniture/ equipment/ software	1,750,051	10,108	174,255	1,585,904	(1,499,885)	86,019
	<u>\$ 8,974,933</u>	<u>\$ 10,108</u>	<u>\$ 174,255</u>	<u>\$ 8,810,786</u>	<u>\$(2,844,504)</u>	<u>\$ 5,966,282</u>
	Cost 6/30/2019	Acquisitions	Retirements/ Disposals	Cost 6/30/2020	Accum. Depreciation	Net Amount
Land	\$ 2,386,585	\$ -	\$ -	\$ 2,386,585	\$ -	\$ 2,386,585
Buildings	4,838,297	-	-	4,838,297	(1,224,147)	3,614,150
Furniture/ equipment/ software	1,721,362	28,689	-	1,750,051	(1,620,357)	129,694
	<u>\$ 8,946,244</u>	<u>\$ 28,689</u>	<u>\$ -</u>	<u>\$ 8,974,933</u>	<u>\$(2,844,504)</u>	<u>\$ 6,130,429</u>

NOTE 5 - CHANGE IN LONG-TERM LIABILITIES

Change in long-term liabilities is as follows:

	Balance 6/30/2020	Increase	Decreases	Balance 6/30/2021	Current Portion of Balance
Accrued vacation	\$ 587,197	\$ 402,774	\$ 391,886	\$ 598,085	\$ -
Deferred revenues	8,453,019	7,877,161	7,710,473	8,619,707	4,309,854
Long-term liabilities	<u>\$ 9,040,216</u>	<u>\$ 8,279,935</u>	<u>\$ 8,102,359</u>	<u>\$ 9,217,792</u>	<u>\$ 4,309,854</u>
	Balance 6/30/2019	Increase	Decreases	Balance 6/30/2020	Current Portion of Balance
Accrued vacation	\$ 578,264	\$ 469,879	\$ 460,946	\$ 587,197	\$ -
Deferred revenues	8,127,163	7,832,160	7,506,304	8,453,019	4,226,510
Long-term liabilities	<u>\$ 8,705,427</u>	<u>\$ 8,302,039</u>	<u>\$ 7,967,250</u>	<u>\$ 9,040,216</u>	<u>\$ 4,226,510</u>

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

NOTE 6 - DESIGNATED NET ASSETS

The Board has designated 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.

Office operation funds of at least \$6,000 are added each year per prior Board action. The Board's designated unrestricted net assets at June 30, 2021 and 2020, are summarized as follows:

	Balance 6/30/2020	Transfers and Receipts	Transfers and Expenditures	Balance 6/30/2021
Information systems operations	\$ 784,869	\$ 731,403	\$ (151,171)	\$ 1,365,101
Capital asset replacement	1,000,000	115,752	(15,752)	1,100,000
Office operations	542,530	257,470	(27,922)	772,078
Research projects	590,558	438,091	(74,460)	954,189
Disaster recovery	479,899	1,020,101	-	1,500,000
Legal defense/risk management	2,992,139	-	(14,692)	2,977,447
	<u>\$ 6,389,995</u>	<u>\$ 2,562,817</u>	<u>\$ (283,997)</u>	<u>\$ 8,668,815</u>

	Balance 6/30/2019	Transfers and Receipts	Transfers and Expenditures	Balance 6/30/2020
Information systems operations	\$ 656,958	\$ 218,316	\$ (90,405)	\$ 784,869
Capital asset replacement	950,000	50,000	-	1,000,000
Office operations	593,508	-	(50,978)	542,530
Research projects	475,960	220,000	(105,402)	590,558
Disaster recovery	500,000	-	(20,101)	479,899
Legal defense/risk management	2,500,000	500,000	(7,861.00)	2,992,139
	<u>\$ 5,676,426</u>	<u>\$ 988,316</u>	<u>\$ (274,747)</u>	<u>\$ 6,389,995</u>

NOTE 7 - 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.

NORTH CAROLINA BOARD OF NURSING
Notes to Financial Statements

NOTE 7 - RETIREMENT PLAN (Continued)

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.

Total contributions to the Plan for the year ended June 30, 2021, were \$1,077,804, which consisted of \$355,737 from the Board and \$722,068 from employees. For the year ended June 30, 2020, total contributions to the Plan were \$1,018,562, which consisted of \$344,615 from the Board and \$673,947 from employees. During the years ended June 30, 2021 and 2020, forfeiture amounts of \$20,587 and \$0 were utilized to reduce employer matching contributions.

NOTE 8 - OPERATING LEASES

The Board signed a lease agreement in November 2019 for four copiers under a four-year operating lease expiring in 2023. Total expense charged to operations under the copier leases was \$20,615 and \$18,195 for the years ended June 30, 2021 and 2020, respectively. Future minimum lease payments

2022	\$ 18,631
2023	18,631
2024	6,210
	<u>\$ 43,472</u>

NOTE 9 - DEFERRED COMPENSATION PLAN

In November 2020, the Board approved and established a deferred compensation plan for the CEO under Section 457 of the Internal Revenue Code. This plan allows the Board to fund the plan up to the maximum amount allowed by law on a fiscal year basis and for the CEO 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 CEO's continuous employment for five years following the effective date of the plan on January 1, 2021. The investments are retained by the Board until the time the CEO becomes fully vested. Upon vesting, the entire account balance, including the Board's contributions and earnings, becomes the property of the CEO. The Board contributed \$19,500 to the plan for the year ended June 30, 2021. The value of the deferred compensation plan investments was \$20,531 at June 30, 2021. A corresponding liability is recorded to reflect the balance due to the CEO upon vesting.

NOTE 10 - 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

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through September 8, 2021, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed other than noted below.

In August 2021, the Board entered into a contract with Strategic Connections to provide audio visual upgrades throughout the Board's facilities for a total contract cost of \$219,850, of which 50% was due and payable upon acceptance of the contract.

The Board's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (Covid-19) which has been declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain; however it may result in a material adverse impact on the Board's financial position, operations and cash flows.

The audit was conducted in approximately 130 hours at a cost of \$20,000.

SUPPLEMENTARY INFORMATION

NORTH CAROLINA BOARD OF NURSING**Statement of Revenues, Expenses and Changes in Net Position - Actual and Budget
Year Ended June 30, 2021**

	Actual	(Unaudited) Budget	Actual Over/(Under) Budget
Operating revenues:			
License renewals	\$ 7,572,980	\$ 7,397,775	\$ 175,205
Examination fees	632,102	550,358	81,744
Reinstatements	126,720	137,040	(10,320)
Endorsements - in-state	1,023,043	904,310	118,733
Verifications - out-of-state	1,440	-	1,440
Mailing labels	114,150	99,716	14,434
Hearing and settlement fees	17,100	-	17,100
Nurses aide registry fees	157,073	182,905	(25,832)
APRN revenue	889,010	763,292	125,718
Other operating income	100,741	86,810	13,931
Total operating revenues	10,634,359	10,122,206	512,153
Operating expenses:			
Salaries and related benefits	7,943,059	8,348,541	(405,482)
Operations	1,800,796	1,533,498	267,298
Elections	-	7,000	(7,000)
Conferences and conventions	19,471	212,625	(193,154)
Board meetings	16,253	82,223	(65,970)
Hearings	45,174	75,169	(29,995)
Committee meetings	11,774	100,400	(88,626)
Other regulatory services	726	12,750	(12,024)
Total operating expenses	9,837,253	10,372,206	(534,953)
Operating income (loss)	797,106	(250,000)	1,047,106
Non-operating revenues:			
Net investment income	1,637,244	250,000	1,387,244
Changes in net position	2,434,350	\$ -	\$ 2,434,350
Net position - beginning of year	14,666,899		
Net position - end of year	\$ 17,101,249		

NORTH CAROLINA BOARD OF NURSING**Statement of Revenues, Expenses and Changes in Net Position - Actual and Budget
Year Ended June 30, 2020**

	Actual	(Unaudited) Budget	Actual Over/(Under) Budget
Operating revenues:			
License renewals	\$ 7,394,395	\$7,318,964	\$ 75,431
Examination fees	587,933	537,162	50,771
Reinstatements	150,960	140,800	10,160
Endorsements - in-state	879,559	946,001	(66,442)
Verifications - out-of-state	2,870	-	2,870
Mailing labels	103,539	92,926	10,613
Hearing and settlement fees	16,767	-	16,767
Nurses aide registry fees	176,261	186,872	(10,611)
APRN revenue	834,743	685,720	149,023
Other operating income	84,774	83,610	1,164
Total operating revenues	<u>10,231,801</u>	<u>9,992,055</u>	<u>239,746</u>
Operating expenses:			
Salaries and related benefits	7,805,843	8,128,178	(322,335)
Operations	1,765,984	1,545,675	220,309
Elections	-	7,000	(7,000)
Conferences and conventions	69,073	194,825	(125,752)
Board meetings	31,683	84,374	(52,691)
Hearings	44,889	83,657	(38,768)
Committee meetings	21,006	98,846	(77,840)
Other regulatory services	5,692	39,500	(33,808)
Total operating expenses	<u>9,744,170</u>	<u>10,182,055</u>	<u>(437,885)</u>
Operating income (loss)	<u>487,631</u>	<u>(190,000)</u>	<u>677,631</u>
Non-operating revenues:			
Net investment income	<u>720,460</u>	<u>190,000</u>	<u>530,460</u>
Changes in net position	1,208,091	<u>\$ -</u>	<u>\$ 1,208,091</u>
Net position - beginning of year	<u>13,458,808</u>		
Net position - end of year	<u>\$ 14,666,899</u>		