



Financial Statements

for

NORTH CAROLINA MEDICAL BOARD

October 31, 2022 and 2021

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NORTH CAROLINA MEDICAL BOARD
Management's Discussion and Analysis
October 31, 2022

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, 2022. 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 \$17,560,949 and \$19,413,563 as of October 31, 2022 and 2021, respectively.

Condensed Statement of Net Position

	October 31,	
	2022	2021
Current Assets	\$ 22,102,473	\$ 23,516,823
Capital Assets	<u>12,318,012</u>	<u>12,900,618</u>
Total Assets	<u>\$ 34,420,485</u>	<u>\$ 36,417,441</u>
Deferred Outflows	<u>\$ 191,771</u>	<u>\$ 214,904</u>
Current Liabilities	\$ 7,252,176	\$ 6,879,766
Noncurrent Liabilities	<u>9,305,048</u>	<u>10,140,033</u>
Total Liabilities	<u>\$ 16,557,224</u>	<u>\$ 17,019,799</u>
Deferred Inflows	<u>\$ 494,083</u>	<u>\$ 198,983</u>
Invested in Capital Assets	\$ 2,995,531	\$ 3,204,330
Unrestricted Net Position	<u>14,565,418</u>	<u>16,209,233</u>
Total Net Position	<u>\$ 17,560,949</u>	<u>\$ 19,413,563</u>

The following table summarizes the revenues and expenses for the Board for the fiscal years ending October 31, 2022 and 2021:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	For the Years Ended October 31,	
	2022	2021
Operating Revenues	\$ 14,734,509	\$ 14,141,074
Non-Operating Revenues (Expenses)	<u>(3,427,185)</u>	<u>4,166,308</u>
Total Revenues	11,307,324	18,307,382
Operating Expenses	<u>13,159,938</u>	<u>11,820,207</u>
Change in Net Position	(1,852,614)	6,487,175
Beginning Net Position	<u>19,413,563</u>	<u>12,926,388</u>
Ending Net Position	<u>\$ 17,560,949</u>	<u>\$ 19,413,563</u>

Operating revenues increased by \$593,435. Operating revenues increased primarily due to population growth within the area resulting in an increase in physician and physician assistant fees. Operating expenses increased by \$1,339,731. The largest individual changes in expenses were increases in employee wages and benefits of \$560,016 and depreciation and amortization expense of \$235,685. These increases were the result of merit increases for employees, additional positions created during the year, and depreciation on the building and upfit of the new office location.

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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 the 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 decreased by \$582,606 during the year ended October 31, 2022. The decrease was due to depreciation expense on the new building and upfit and amortization expense on leased assets. The following is a summary of capital assets, net of depreciation:

	For the Years Ended October 31,	
	2022	2021
Land	\$ 1,366,042	\$ 1,366,042
Building and Improvements	10,055,641	10,409,118
Office Furniture and Equipment	754,278	1,008,710
Leased Assets	<u>142,051</u>	<u>116,748</u>
	<u>\$ 12,318,012</u>	<u>\$ 12,900,618</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
3127 Smoketree Ct.
Raleigh, NC 27604



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

REPORT OF INDEPENDENT AUDITORS

Opinion

We have audited the accompanying financial statements of the business-type activities of North Carolina Medical Board, which comprise the Statement of Net Position as of October 31, 2022, and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Medical Board, as of October 31, 2022, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Carolina Medical Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the North Carolina Medical Board, as of and for the year ended October 31, 2021, were audited by other auditors, whose report, dated January 28, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Carolina Medical Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Carolina Medical Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Carolina Medical Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Dean Dotson Allen Ford, PLLC

Raleigh, North Carolina
February 1, 2023

NORTH CAROLINA MEDICAL BOARD
Statements of Net Position
October 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS:		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 822,978	\$ 681,721
Accounts Receivable	27,750	26,055
Investments	21,122,969	22,704,365
Prepaid Expenses	128,776	104,682
Total Current Assets	<u>22,102,473</u>	<u>23,516,823</u>
CAPITAL ASSETS:		
Land	1,366,042	1,366,042
Building and Improvements	10,604,308	10,604,308
Office Furniture and Equipment	1,257,394	1,257,394
Leased Assets	222,585	209,871
Total	<u>13,450,329</u>	<u>13,437,615</u>
Less Accumulated Depreciation and Amortization	<u>1,132,317</u>	<u>536,997</u>
Total Capital Assets	<u>12,318,012</u>	<u>12,900,618</u>
Total Assets	<u><u>\$ 34,420,485</u></u>	<u><u>\$ 36,417,441</u></u>
DEFERRED OUTFLOWS OF RESOURCES:		
OPEB Deferrals	<u><u>\$ 191,771</u></u>	<u><u>\$ 214,904</u></u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts Payable	\$ 473,011	\$ 507,157
Compensated Absences	478,378	439,620
Obligation Under Capital Lease--Current	52,529	59,241
Loan Payable--Furniture & Equipment Loan	96,218	93,376
Loan Payable--Smoketree Construction Loan	354,054	199,113
Unearned License Revenue	5,797,986	5,581,259
Total Current Liabilities	<u>7,252,176</u>	<u>6,879,766</u>
NONCURRENT LIABILITIES:		
Obligation Under Capital Lease--Noncurrent	89,410	60,973
Loan Payable--Furniture & Equipment Loan	435,879	523,982
Loan Payable - Smoketree Construction Loan	8,294,391	8,759,603
Total OPEB Liability	<u>485,368</u>	<u>795,475</u>
Total Noncurrent Liabilities	<u>9,305,048</u>	<u>10,140,033</u>
Total Liabilities	<u><u>\$ 16,557,224</u></u>	<u><u>\$ 17,019,799</u></u>
DEFERRED INFLOWS OF RESOURCES:		
OPEB Deferrals	<u><u>\$ 494,083</u></u>	<u><u>\$ 198,983</u></u>
NET POSITION:		
Invested in Capital Assets	\$ 2,995,531	\$ 3,204,330
Unrestricted	<u>14,565,418</u>	<u>16,209,233</u>
Total Net Position	<u><u>\$ 17,560,949</u></u>	<u><u>\$ 19,413,563</u></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, 2022 and 2021

	2022	2021
OPERATING REVENUES:		
Physicians' Fees	\$ 12,043,738	\$ 11,643,352
Physician Assistants' Fees	1,495,450	1,394,818
Residents' Fees	569,840	547,369
Nurse Practitioners' Fees	304,837	257,067
Corporations' Fees	155,713	147,817
Other Licensee Fees	84,610	69,764
DataLiNC and Roster Reports	57,862	59,042
Civil Penalties Collected	20,500	18,500
Miscellaneous Income	1,959	3,345
Total Operating Revenues	<u>14,734,509</u>	<u>14,141,074</u>
OPERATING EXPENSES:		
Employee Wages and Benefits	8,271,101	7,711,085
Professionals Health Program	1,424,935	1,370,419
Office Expenses	973,095	827,616
Depreciation and Amortization	666,310	430,625
Consulting	433,626	252,343
Maintenance and Computer Support	431,291	391,815
Interest Expense	292,231	229,639
Board Per Diem Expense	209,425	161,718
Automotive, Travel, and Meal Expenses	179,987	56,767
Legal and Accounting	119,796	147,555
Postage and Printing	50,563	51,267
Dues and Publications	46,105	50,627
Other Post-Employment Benefits	25,993	90,612
Civil Penalties Remitted	20,500	18,500
Other	14,980	15,996
Rent		13,623
Total Operating Expenses	<u>13,159,938</u>	<u>11,820,207</u>
OPERATING INCOME	<u>1,574,571</u>	<u>2,320,867</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment Income (Loss)	(3,431,396)	2,841,210
Gain on Disposal of Assets	4,211	1,325,098
Total Non-Operating Revenues (Expenses)	<u>(3,427,185)</u>	<u>4,166,308</u>
CHANGE IN NET POSITION	(1,852,614)	6,487,175
NET POSITION--Beginning of Year	<u>19,413,563</u>	<u>12,926,388</u>
NET POSITION--End of Year	<u>\$ 17,560,949</u>	<u>\$ 19,413,563</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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Registrations	\$ 14,869,220	\$ 14,295,213
Cash Payments to Employees	(8,250,209)	(7,706,094)
Cash Payments to Professionals Health Program	(1,415,841)	(1,368,135)
Cash Payments for Office Operations	(2,838,933)	(3,205,903)
Cash Received for Other Operating Revenues	80,320	80,887
Net Cash Provided by Operating Activities	<u>2,444,557</u>	<u>2,095,968</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Capital Assets	1,485	2,653,175
Purchases of Capital Assets		(1,713,141)
Purchases of Investments	(4,912,185)	(8,726,920)
Proceeds from Sale of Investments	3,077,437	5,091,812
Net Cash Used by Investing Activities	<u>(1,833,263)</u>	<u>(2,695,074)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Obligation Under Capital Lease	(74,505)	(59,193)
Proceeds from Loan Payable		1,182,086
Repayment of Loan Payable	(395,532)	(354,926)
Net Cash Provided (Used) by Financing Activities	<u>(470,037)</u>	<u>767,967</u>
NET INCREASE IN CASH	141,257	168,861
CASH AND CASH EQUIVALENTS--Beginning of Year	<u>681,721</u>	<u>512,860</u>
CASH AND CASH EQUIVALENTS--End of Year	<u>\$ 822,978</u>	<u>\$ 681,721</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 1,574,571	\$ 2,320,867
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	666,310	430,625
Changes in Assets and Liabilities:		
Accounts Receivable	(1,695)	(6,607)
Prepaid Expenses	(24,094)	(10,385)
Accounts Payable	(34,146)	(964,236)
Compensated Absences	38,758	14,269
Deferred Lease Incentive		(11,532)
Unearned License Revenue	216,727	241,633
Total OPEB Liability	(310,107)	50,496
Deferred Outflows of Resources--OPEB	23,133	(69,874)
Deferred Inflows of Resources--OPEB	295,100	100,712
Net Cash Provided by Operating Activities	<u>\$ 2,444,557</u>	<u>\$ 2,095,968</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Noncash Investing and Financing Activities:		
Reinvested Interest and Dividends, net of fees	\$ 664,021	\$ 444,535
Purchase of Equipment under a Capital Lease	\$ 96,231	\$ 51,672

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

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2022 and 2021

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, 2022 and 2021

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 (or in the case of employees starting after January 1, 2018, 240 hours), which can be carried forward at the end of each fiscal year. Unused vacation in excess of 480 hours (or 240 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 \$478,378 and \$439,620 at October 31, 2022 and 2021, respectively.

The Board's sick leave policy provides for an 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.

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.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2022 and 2021

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.

N. Governmental Accounting Standards Board Statement No. 87:

The Board adopted the provisions of GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

There was no restatement of net position as of November 1, 2020 as a result of the implementation of GASB Statement No. 87, *Leases*.

2. Investments

As of October 31, 2022 and 2021, the Board had the following investments:

	Fair Value	
	2022	2021
Corporate Bonds	\$ 6,305,009	\$ 6,830,128
Government and Government-Sponsored Agency Bonds	2,195,130	2,514,499
Equity Securities and Mutual Funds	11,848,550	13,011,626
Money Market Account	774,280	348,112
	<u>\$ 21,122,969</u>	<u>\$ 22,704,365</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, 2022 were:

1-3 years	\$ 3,877,111
4-10 years	<u>4,623,028</u>
	<u>\$ 8,500,139</u>

Credit Risk – The Board has given 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, 2022 and 2021

2. Investments (Continued)

At October 31, 2022, the Board's portfolio had the following Standard and Poor's credit ratings:

<u>Credit Rating</u>	<u>Investment Amount</u>
AA+	\$ 2,386,180
AA	49,571
AA-	752,684
A+	1,711,087
A	1,167,298
A-	379,429
Not Rated	<u>2,053,890</u>
	<u>\$ 8,500,139</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 \$500,133 and \$380,096 at October 31, 2022 and 2021, 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, 2022 and 2021, the FDIC limits of protection were \$250,000 for cash and cash equivalents held with the Firm and the Board had uninsured balances of \$524,280 and \$98,112, respectively.

Investment income is composed of the following for the years ended October 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and Dividends	\$ 748,693	\$ 522,890
Unrealized and Realized Gains (Losses)	(4,095,417)	2,396,675
Investment Fees	<u>(84,672)</u>	<u>(78,355)</u>
	<u>\$ (3,431,396)</u>	<u>\$ 2,841,210</u>

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2022 and 2021

3. Fair Value Measurements

The Board's investments are recorded at fair value as of October 31, 2022 and 2021. 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, 2022, 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	\$ 6,305,009	\$ 6,305,009	\$	\$
Government Bonds	2,195,130	2,195,130		
Equity Securities and Mutual Funds	11,848,550	11,848,550		
Money Market Account	<u>774,280</u>	<u>774,280</u>		
Total Investments by Fair Value Level	\$ <u>21,122,969</u>	\$ <u>21,122,969</u>	\$ _____	\$ _____

As of October 31, 2021, 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	\$ 6,830,128	\$ 6,830,128	\$	\$
Government Bonds	2,514,499	2,514,499		
Equity Securities and Mutual Funds	13,011,626	13,011,626		
Money Market Account	<u>348,112</u>	<u>348,112</u>		
Total Investments by Fair Value Level	\$ <u>22,704,365</u>	\$ <u>22,704,365</u>	\$ _____	\$ _____

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
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4. Capital Assets

Changes in capital assets for the year ended October 31, 2022 were as follows:

	Balance 10/31/21	Increases	Decreases	Balance 10/31/22
Capital Assets Not Being Depreciated:				
Land	\$ 1,366,042	\$ _____	\$ _____	\$ 1,366,042
Capital Assets Being Depreciated:				
Buildings and Improvements	10,604,308			10,604,308
Office Furniture and Equipment	1,257,394			1,257,394
Total Capital Assets Being Depreciated	11,861,702			11,861,702
Less Accumulated Depreciation for:				
Buildings and Improvements	195,190	353,477		548,667
Office Furniture and Equipment	248,684	254,432		503,116
Total Capital Assets Being Depreciated, net	11,417,828	(607,909)		10,809,919
Leased Assets:				
Equipment	148,350	80,888	(83,517)	145,721
Vehicles	61,521	15,343		76,864
Total Leased Assets Being Amortized	209,871	96,231	(83,517)	222,585
Less Accumulated Amortization				
Equipment	74,624	31,523	(70,990)	35,157
Vehicles	18,499	26,878		45,377
Total Leased Assets Being Amortized, Net	116,748	37,830	(12,527)	142,051
Capital Assets, net	\$ 12,900,618			\$ 12,318,012

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
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4. Capital Assets (Continued)

Changes in capital assets for the year ended October 31, 2021 were as follows:

	Balance 10/31/20	Increases	Decreases	Balance 10/31/21
Capital Assets Not Being Depreciated:				
Land	\$ 177,000	\$ 1,366,042	\$ (177,000)	\$ 1,366,042
Construction in Progress	11,074,919		(11,074,919)	
Total Capital Assets Not Being Depreciated	<u>11,251,919</u>	<u>1,366,042</u>	<u>(11,251,919)</u>	<u>1,366,042</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	2,361,056	10,604,308	(2,361,056)	10,604,308
Office Furniture and Equipment	1,045,638	817,711	(605,955)	1,257,394
Total Capital Assets Being Depreciated	<u>3,406,694</u>	<u>11,422,019</u>	<u>(2,967,011)</u>	<u>11,861,702</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	1,410,462	195,190	(1,410,462)	195,190
Office Furniture and Equipment	610,762	191,501	(553,579)	248,684
Total Capital Assets Being Depreciated, net	<u>1,385,470</u>	<u>11,035,328</u>	<u>(1,002,970)</u>	<u>11,417,828</u>
Leased Assets:				
Equipment	96,678	51,672		148,350
Vehicles	15,736	45,785		61,521
Total Leased Assets Being Amortized	<u>112,414</u>	<u>97,457</u>		<u>209,871</u>
Less Accumulated Amortization				
Equipment	49,188	25,436		74,624
Vehicles		18,499		18,499
Total Leased Assets Being Amortized, Net	<u>63,226</u>	<u>53,522</u>		<u>116,748</u>
Capital Assets, net	<u>\$ 12,700,615</u>			<u>\$ 12,900,618</u>

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
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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(b) plan administered by the NC Department of State Treasurer. The plan allows all employees to elect a deferral.

Total pension costs for the years ended October 31, 2022 and 2021 were \$391,112 and \$272,632, respectively. Employee contributions for the years ended October 31, 2022 and 2021 were \$569,438 and \$510,044, 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 of 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 November 1, 2021, the date of the latest actuarial valuation:

	<u>Employees</u>
Potentially eligible employees	55
Total Retirees	<u>8</u>
	<u><u>63</u></u>

B. Funding Policy:

The Board reimburses eligible retirees for healthcare coverage that they obtain themselves up to the amount the Board pays toward 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, 2022 and 2021

6. Other Post-Employment Benefit (Continued)

C. Total OPEB Liability:

The Board's total OPEB (Other Post Employment Benefit) liability of \$485,368 was measured as of November 1, 2021 and October 31, 2022 and was determined by an actuarial valuation as of those dates.

Actuarial Assumptions and other inputs. The total OPEB liability in the November 1, 2021 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	4.85 percent
Medical trend rate	6.00% initially graded down 0.50% per year to an ultimate rate of 4.00% per year after four 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 are amounts that the employer pays for employee-only coverage under the current group health plan for active employees
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 November 1, 2021	\$ 795,475
Changes for the year:	
Service cost	37,035
Interest cost	21,222
Changes in actuarial assumptions	(347,698)
Contributions from employer	(17,866)
Additional expected benefit payments	(2,800)
Net changes	<u>(310,107)</u>
Balance at October 31, 2022	<u>\$ 485,368</u>

Mortality rates were based on the Pri-2012 White Collar Headcount-Weighted Mortality Table with generational projection of mortality improvements using the MP-2021 Projection Scale.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2022 and 2021

6. Other Post-Employment Benefit (Concluded)

Sensitivity of the total OPEB liability to changes in the discount rate at November 1, 2021. 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 (3.85%) or 1-percentage-point higher (5.85%) than the current discount rate:

	Current		
	1% Decrease (3.85%)	Discount Rate (4.85%)	1% Increase (5.85%)
Total OPEB Liability	\$ 477,987	\$ 447,777	\$ 419,367

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	\$ 409,270	\$ 447,777	\$ 491,631

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

For the year ended October 31, 2022, the Board recognized OPEB expense of \$25,993. At October 31, 2022, 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	\$	\$ 17,866
Changes in Assumptions	191,771	476,217
	<u>\$ 191,771</u>	<u>\$ 494,083</u>

7. Leases

The Board is committed on various long-term leases for equipment and vehicles. The total of the Board's leased assets is recorded at a cost of \$222,585, less accumulated amortization of \$142,051.

The future lease payments under lease agreements are as follows:

Year Ending October 31	Leases		
	Principal	Interest	Total
2023	\$ 52,529	\$ 5,094	\$ 57,623
2024	34,058	3,309	37,367
2025	24,787	2,050	26,837
2026	21,577	963	22,540
2027	8,988	132	9,120
	<u>\$ 141,939</u>	<u>\$ 11,548</u>	<u>\$ 153,487</u>

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2022 and 2021

8. Compensated Absences

Changes to accrued vacation are as follows:

	2022	2021
Beginning Accrued Vacation	\$ 439,620	\$ 425,351
Vacation Earned	418,232	368,981
Vacation Used	<u>(379,474)</u>	<u>(354,712)</u>
Ending Accrued Vacation	<u>\$ 478,378</u>	<u>\$ 439,620</u>

9. Loan Payable

The Board obtained a promissory note from First-Citizens Bank & Trust Company on March 23, 2020 in the amount of \$9,231,000 to finance the construction of the new office building. Interest accrues on the outstanding principal balance at an annual fixed rate of 3.29% and is payable monthly. The Board requested draws on the note balance as needed during construction. The balance on the loan was \$8,648,445 and \$8,958,716 at October 31, 2022 and 2021, respectively.

The Board obtained a promissory note from First-Citizens Bank & Trust Company on March 23, 2020 in the amount of \$700,000 to finance the purchase of furniture and fixtures for the new office building. Interest accrues on the outstanding principal balance at an annual fixed rate of 3.29% and is payable monthly. The Board requested draws on the note balance as needed while furnishing the building. Principal repayment began on January 23, 2021. The balance on the loan was \$532,097 and \$617,358 at October 31, 2022 and 2021, respectively.

Future loan payments are as follows:

Year Ending October 31	Principal	Interest
2023	\$ 450,272	\$ 295,290
2024	465,312	280,251
2025	480,854	264,045
2026	496,914	248,648
2027	513,512	232,051
2028-2032	<u>6,773,678</u>	<u>792,319</u>
	<u>\$ 9,180,542</u>	<u>\$ 2,112,604</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 Professionals 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 \$1,424,935 and \$1,370,419 for the years ended October 31, 2022 and 2021, respectively.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2022 and 2021

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 February 1, 2023, which is the date the financial statements were available to be issued. Except for the items discussed below, management discovered no subsequent events that should be disclosed.

The Board approved as a part of the 2022/2023 budget to payout vacation hours earned and accrued in excess of 240 hours. The approved payout was paid on November 30, 2022, in the amount of \$448,776.

SUPPLEMENTARY INFORMATION

NORTH CAROLINA MEDICAL BOARD
Schedule of Changes in the Total OPEB Liability and Related Ratios
October 31, 2022

	2022	2021
Service Cost	\$ 37,035	\$ 68,271
Interest	21,222	17,480
Change in actuarial assumptions	(347,698)	(4,284)
Contributions from employer	(17,866)	(9,278)
Additional expected benefit payments	(2,800)	(21,693)
Net change in total OPEB liability	(310,107)	50,496
Total OPEB liability--November 1, 2020	795,475	744,979
 Total OPEB liability--October 31, 2021	 \$ 485,368	 \$ 795,475
 Covered payroll	 5,843,588	 5,231,858
Total OPEB liability as a percentage of covered payroll	8.31%	15.20%

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:

Fiscal Year	Rate
2021	2.41%
2022	4.85%

