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NORTH CAROLINA MEDICAL BOARD

Financial Statements

October 31, 2015 and 2014

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NORTH CAROLINA MEDICAL BOARD
Management's Discussion and Analysis
October 31, 2015

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, 2015. 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 \$2,678,922 and \$2,911,560 as of October 31, 2015 and 2014, respectively.

Condensed Statement of Net Position

	October 31,	
	2015	2014
Current Assets	\$ 4,991,214	\$ 5,049,411
Capital Assets	<u>1,658,490</u>	<u>1,814,250</u>
Total Assets	<u>\$ 6,649,704</u>	<u>\$ 6,863,661</u>
Current Liabilities	<u>\$ 3,970,782</u>	<u>\$ 3,952,101</u>
Invested in Capital Assets	\$ 1,658,490	\$ 1,814,250
Unrestricted Net Position	<u>1,020,432</u>	<u>1,097,310</u>
Total Net Position	<u>\$ 2,678,922</u>	<u>\$ 2,911,560</u>

The following table summarizes the revenues and expenses for the Board for the fiscal years ending October 31, 2015 and 2014:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	For the Years Ended October 31,	
	2015	2014
Operating Revenues	\$ 8,765,177	\$ 8,718,135
Non-Operating Revenues	<u>55,424</u>	<u>130,674</u>
Total Revenues	8,820,601	8,848,809
Operating Expenses	<u>9,053,239</u>	<u>8,937,010</u>
Change in Net Position	(232,638)	(88,201)
Beginning Net Position, Restated	<u>2,911,560</u>	<u>2,999,761</u>
Ending Net Position	<u>\$ 2,678,922</u>	<u>\$ 2,911,560</u>

Operating revenues increased by \$47,042. The primary reason for the increase in operating revenues was an increase in registration fees due to an increase in the number of licensees. Operating expenses increased by \$116,229. The primary reason for the increase in operating expenses was an increase in personnel expenses and physician health program expenses. However, the increase in personnel expenses and physician health program expenses was offset by a decrease in maintenance and computer support and depreciation expense. Non-Operating revenues decreased by \$75,250. The primary reason for the decrease in non-operating revenues was a decrease in realized gains on investments.

NORTH CAROLINA MEDICAL BOARD
Management's Discussion and Analysis
October 31, 2015

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 (GASB) principles.

Financial Statements

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

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

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

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

Capital Assets

Net capital assets decreased by \$155,760 during the year ended October 31, 2015. The decrease was due primarily to depreciation expense being offset by routine equipment purchases. The following is a summary of capital assets, net of depreciation:

	For the Years Ended October 31,	
	2015	2014
Land	\$ 177,000	\$ 177,000
Building and Improvements	1,291,279	1,366,126
Office Furniture and Equipment	190,211	271,124
	\$ 1,658,490	\$ 1,814,250

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 Director
North Carolina Medical Board
P. O. Box 20007
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To the Board of Directors
North Carolina Medical Board
Raleigh, North Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of North Carolina Medical Board, as of and for the years ended October 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Board's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of North Carolina Medical Board, as of October 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Raleigh, North Carolina
January 28, 2016

NORTH CAROLINA MEDICAL BOARD

Statements of Net Position

October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS:		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 280,275	\$ 340,674
Accounts Receivable	32,560	26,575
Investments	4,633,520	4,625,222
Prepaid Expenses	44,859	56,940
Total Current Assets	<u>4,991,214</u>	<u>5,049,411</u>
CAPITAL ASSETS:		
Land	177,000	177,000
Building and Improvements	2,318,385	2,312,434
Office Furniture and Equipment	2,928,740	3,056,064
Total	<u>5,424,125</u>	<u>5,545,498</u>
Less Accumulated Depreciation	3,765,635	3,731,248
Total Capital Assets	<u>1,658,490</u>	<u>1,814,250</u>
Total Assets	<u>\$ 6,649,704</u>	<u>\$ 6,863,661</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts Payable	\$ 208,076	\$ 243,445
Compensated Absences	339,615	344,819
Unearned License Revenue	3,423,091	3,363,837
Total Current Liabilities	<u>\$ 3,970,782</u>	<u>\$ 3,952,101</u>
NET POSITION:		
Invested in Capital Assets	\$ 1,658,490	\$ 1,814,250
Unrestricted	<u>1,020,432</u>	<u>1,097,310</u>
Total Net Position	<u>\$ 2,678,922</u>	<u>\$ 2,911,560</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Physicians' Fees	\$ 7,094,253	\$ 7,189,475
Corporations' Fees	131,034	135,006
Residents' Fees	430,179	378,105
Physician Assistants' Fees	672,847	579,517
Nurse Practitioners' Fees	290,829	266,300
Other Licensee Fees	78,677	66,476
Datalink and Roster Reports	37,358	42,506
Civil Penalties Collected	30,000	60,750
Total Operating Revenues	<u>8,765,177</u>	<u>8,718,135</u>
OPERATING EXPENSES:		
Employee Wages and Benefits	6,118,203	6,000,575
Physician Health Program	913,978	789,663
Maintenance and Computer Support	394,572	539,511
Office Expenses	637,986	436,612
Depreciation	248,588	334,281
Automotive, Travel, and Meal Expenses	205,756	239,385
Consulting	189,648	160,334
Board Per Diem Expense	146,169	141,164
Postage and Printing	82,933	94,772
Legal and Accounting	24,075	81,413
Civil Penalties Remitted	30,000	60,750
Dues and Publications	48,686	48,365
Other	12,645	10,185
Total Operating Expenses	<u>9,053,239</u>	<u>8,937,010</u>
OPERATING LOSS	<u>(288,062)</u>	<u>(218,875)</u>
NON-OPERATING REVENUES:		
Investment Income	58,298	129,924
Gain on Disposal of Assets	(2,874)	750
Total Non-Operating Revenues	<u>55,424</u>	<u>130,674</u>
CHANGE IN NET POSITION	(232,638)	(88,201)
NET POSITION--Beginning of Year	<u>2,911,560</u>	<u>2,999,761</u>
NET POSITION--End of Year	<u>\$ 2,678,922</u>	<u>\$ 2,911,560</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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Registrations	\$ 8,751,088	\$ 8,513,031
Cash Payments to Employees	(6,123,407)	(5,961,235)
Cash Payments to Physicians Health Program	(920,951)	(786,540)
Cash Payments for Office Operations	(1,788,785)	(1,796,904)
Cash Received for Other Operating Revenues	67,358	103,256
Net Cash Provided (Used) by Operating Activities	(14,697)	71,608
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds (Loss) from Sale of Capital Assets	(2,874)	750
Purchases of Capital Assets	(97,451)	(115,767)
Purchases of Investments	(4,208,025)	(1,362,725)
Proceeds from Sale of Investments	4,262,648	1,487,723
Net Cash Provided (Used) by Investing Activities	(45,702)	9,981
NET INCREASE (DECREASE) IN CASH	(60,399)	81,589
CASH AND CASH EQUIVALENTS--Beginning of Year	340,674	259,085
CASH AND CASH EQUIVALENTS--End of Year	\$ 280,275	\$ 340,674
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Loss	\$ (288,062)	\$ (218,875)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation	248,588	334,281
Changes in Assets and Liabilities:		
Accounts Receivable	(5,985)	21,290
Prepaid Expenses	12,081	(27,594)
Accounts Payable	(35,369)	54,372
Payroll Liabilities		
Compensated Absences	(5,204)	39,340
Unearned Lease Incentive		(8,068)
Unearned License Revenue	59,254	(123,138)
Net Cash Provided (Used) by Operating Activities	\$ (14,697)	\$ 71,608
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Noncash Investing Activities:		
Reinvested Interest and Dividends, net of fees	\$ 164,026	\$ 113,043

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

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2015 and 2014

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 (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 is 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.

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 (FASB) 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.

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.

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2015 and 2014

1. Summary of Significant Accounting Policies (Continued)

F. Cash and Cash Equivalents:

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

G. Investments:

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

H. Capital Assets:

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

I. Impairment of Long-Lived Assets:

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

J. Compensated Absences:

Vacation is accrued as earned and payable. Board policy provides for a maximum accumulation of unused vacation leave of 480 hours, which can be carried forward at the end of each fiscal year. Unused vacation in excess of 480 hours may be transferred to sick leave. Upon termination of employment, the employee is paid for vacation earned but not taken up to a maximum of 240 hours. The liability is adjusted annually for the change in accrued vacation pay, and the change is reflected in the statement of revenues, expenses, and changes in net position. Accrued vacation totaled \$339,615 and \$344,819 at October 31, 2015 and 2014, respectively.

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

K. Unearned Revenue:

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

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, 2015 and 2014

1. Summary of Significant Accounting Policies (Concluded)

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. Subsequent Events:

Management of the Board evaluated subsequent events through January 28, 2016, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

2. Investments

As of October 31, 2015 and 2014, the Board had the following investments:

	Fair Value	
	2015	2014
Corporate Bonds	\$ 1,594,573	\$ 2,211,973
Government Bonds	1,088,085	529,890
Bond Mutual Funds		741,032
Equity Securities	1,813,608	1,003,295
Real Estate Investments	14,671	
Money Market Account	<u>122,583</u>	<u>139,032</u>
	<u>\$ 4,633,520</u>	<u>\$ 4,625,222</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, 2015 were:

1-3 years	\$ 1,005,949
3-7 years	<u>1,676,709</u>
	<u>\$ 2,682,658</u>

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

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

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2015 and 2014

2. Investments (Continued)

At October 31, 2015, the Board's portfolio had the following credit ratings:

<u>Credit Rating</u>	<u>Investment Amount</u>
AA+	\$ 620,000
AA	214,963
AA-	133,554
A+	178,719
A	743,212
A-	114,961
BBB+	107,509
Unrated	<u>569,740</u>
	<u>\$ 2,682,658</u>

The Board held government bonds with a fair value of \$569,740, which are not rated but are fully guaranteed by the United States.

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 \$85,300 and \$115,900 at October 31, 2015 and 2014, 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, 2015 and 2014, the FDIC limits of protection were \$250,000 for cash and cash equivalents held with the Firm and the Board had no uninsured cash and cash equivalents.

Investment income is composed of the following for the years ended October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and Dividends	\$ 196,536	\$ 146,558
Unrealized and Realized Gains	(105,728)	16,881
Investment Fees	<u>(32,510)</u>	<u>(33,515)</u>
	<u>\$ 58,298</u>	<u>\$ 129,924</u>

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2015 and 2014

3. Capital Assets

Changes in capital assets for the year ended October 31, 2015 were as follows:

	October 31, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	October 31, <u>2015</u>
Capital Assets Not Being Depreciated:				
Land	\$ <u>177,000</u>	\$ _____	\$ _____	\$ <u>177,000</u>
Capital Assets Being Depreciated:				
Building and Improvements	2,312,434	5,951		2,318,385
Office Furniture and Equipment	<u>3,056,064</u>	<u>91,500</u>	<u>(218,824)</u>	<u>2,928,740</u>
Total Capital Assets Being Depreciated	<u>5,368,498</u>	<u>97,451</u>	<u>(218,824)</u>	<u>5,247,125</u>
Less Accumulated Depreciation for:				
Building and Improvements	946,308	80,799		1,027,107
Office Furniture and Equipment	<u>2,784,940</u>	<u>167,789</u>	<u>(214,201)</u>	<u>2,738,528</u>
Total Accumulated Depreciation	<u>3,731,248</u>	<u>248,588</u>	<u>(214,201)</u>	<u>3,765,635</u>
Total Capital Assets Being Depreciated	<u>1,637,250</u>	<u>(151,137)</u>	<u>(4,623)</u>	<u>1,481,490</u>
Capital Assets, net	\$ <u>1,814,250</u>	\$ <u>(151,137)</u>	\$ <u>(4,623)</u>	\$ <u>1,658,490</u>

Changes in capital assets for the year ended October 31, 2014 were as follows:

	October 31, <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	October 31, <u>2014</u>
Capital Assets Not Being Depreciated:				
Land	\$ <u>177,000</u>	\$ _____	\$ _____	\$ <u>177,000</u>
Capital Assets Being Depreciated:				
Building and Improvements	2,313,020		(586)	2,312,434
Office Furniture and Equipment	<u>3,144,261</u>	<u>115,767</u>	<u>(203,964)</u>	<u>3,056,064</u>
Total Capital Assets Being Depreciated	<u>5,457,281</u>	<u>115,767</u>	<u>(204,550)</u>	<u>5,368,498</u>
Less Accumulated Depreciation for:				
Building and Improvements	864,074	82,820	(586)	946,308
Office Furniture and Equipment	<u>2,737,443</u>	<u>251,461</u>	<u>(203,964)</u>	<u>2,784,940</u>
Total Accumulated Depreciation	<u>3,601,517</u>	<u>334,281</u>	<u>(204,550)</u>	<u>3,731,248</u>
Total Capital Assets Being Depreciated	<u>1,855,764</u>	<u>(218,514)</u>	_____	<u>1,637,250</u>
Capital Assets, net	\$ <u>2,032,764</u>	\$ <u>(218,514)</u>	\$ <u>0</u>	\$ <u>1,814,250</u>

NORTH CAROLINA MEDICAL BOARD
Notes to Financial Statements
October 31, 2015 and 2014

4. Pension Plan

The Board has a contributory pension plan covering all full-time employees who have met certain age and length of service requirements. There was one employee hired prior to 1983 who is covered by the Teachers' and State Employees' Retirement System of North Carolina. Under this plan, employees are required to defer 6% of their salary and the Board contributes a percentage of salary as set by the General Assembly of the State of North Carolina. This percentage for the years ended October 31, 2015 and 2014 was 15.21 % and 14.69%, respectively.

Employees hired after 1982 are covered under a 401(k) plan administered by John Hancock which allows all employees an elective deferral of their salary. The Board makes a matching contribution of up to 6% of an employee's salary.

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

Total pension costs for the years ended October 31, 2015 and 2014 were \$264,265 and \$259,179, respectively. Employee contributions for the years ended October 31, 2015 and 2014 were \$517,218 and \$553,084, respectively.

5. Lease Obligations

The Board is committed on various long-term leases for equipment and vehicles. These operating leases expire at various times over the next five years. Rent expense for these leases for the years ended October 31, 2015 and 2014 was \$44,102 and \$46,127, respectively.

Future minimum lease commitments as of October 31, 2015 are summarized as follows:

Years Ending <u>October 31</u>	
2016	\$ 91,775
2017	49,205
2018	29,444
2019	<u>13,892</u>
	<u>\$ 184,316</u>

6. Compensated Absences

Changes to accrued vacation are as follows:

	<u>2015</u>	<u>2014</u>
Beginning Accrued Vacation	\$ 344,819	\$ 305,479
Vacation Earned	338,380	331,189
Vacation Used	<u>(343,584)</u>	<u>(291,849)</u>
Ending Accrued Vacation	<u>\$ 339,615</u>	<u>\$ 344,819</u>

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7. Commitments

Effective January 1, 1994, the Board entered into an agreement with the North Carolina Medical Society to constitute a revised peer review agreement for the purpose of conducting an impaired physician program. This program is administered by North Carolina Physicians Health Program, Inc. (NCPHP), an affiliate of the North Carolina Medical Society. The program has been established for the identification of impaired physicians and physicians' assistants and to provide avenues for treatment programs and rehabilitation of impaired physicians. Expenditures made pursuant to the NCPHP program were \$913,978 and \$789,663 for the years ended October 31, 2015 and 2014, respectively.

8. 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.

9. 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.