

NORTH CAROLINA MEDICAL SOCIETY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019



Williams Overman Pierce, LLP
—CPAs • Advisors—

NORTH CAROLINA MEDICAL SOCIETY
CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	10



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
North Carolina Medical Society

We have audited the accompanying consolidated financial statements of North Carolina Medical Society, which are comprised of the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of North Carolina Medical Society as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

William Overman Pierce, LLP

Raleigh, North Carolina
October 19, 2021

NORTH CAROLINA MEDICAL SOCIETY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 2,488,901	\$ 1,729,096
Restricted	34,028	70,293
Marketable securities	8,835,775	8,883,906
Accounts receivable	604,909	554,512
Prepaid expenses	<u>26,534</u>	<u>16,459</u>
Total current assets	<u>11,990,147</u>	<u>11,254,266</u>
Property and equipment:		
Land and improvements	490,245	490,245
Buildings and improvements	7,731,016	7,751,561
Furniture, fixtures and equipment	1,102,668	1,099,159
Vehicles	<u>63,894</u>	<u>63,894</u>
	9,387,823	9,404,859
Less: accumulated depreciation	<u>(5,168,547)</u>	<u>(4,913,999)</u>
	<u>4,219,276</u>	<u>4,490,860</u>
	<u>\$ 16,209,423</u>	<u>\$ 15,745,126</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 61,881	\$ 110,007
Accrued payroll and related liabilities:		
Salaries and wages	212,956	205,534
Agency obligations	88,648	51,424
Contract liabilities	860,725	1,055,644
Conditional contribution	110,777	
Deferred compensation - current	<u>115,000</u>	
Total current liabilities	<u>1,449,987</u>	<u>1,422,609</u>
Long-term liabilities:		
Deferred compensation - noncurrent	16,667	195,000
Commitments and Contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	9,811,233	9,159,716
Board designated	<u>4,897,508</u>	<u>4,897,508</u>
	14,708,741	14,057,224
With donor restrictions:		
Purpose restricted	<u>34,028</u>	<u>70,293</u>
	<u>14,742,769</u>	<u>14,127,517</u>
	<u>\$ 16,209,423</u>	<u>\$ 15,745,126</u>

See accompanying notes to consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2020

4

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Membership dues	\$ 2,120,376	\$	\$ 2,120,376
Investment income:			
Net realized and unrealized gains	815,593		815,593
Interest and dividends	252,164	72	252,236
Product service endorsements	726,169		726,169
Rental income	241,886		241,886
Specialty and county society services	407,401		407,401
Contributions		203,099	203,099
Annual meeting sponsor	37,100		37,100
Grants	5,524,223		5,524,223
Service fee revenue	300,000		300,000
Other	92,819		92,819
Net assets released from restrictions	239,436	(239,436)	
Total support and revenues	<u>10,757,167</u>	<u>(36,265)</u>	<u>10,720,902</u>
Operating expenses:			
Program services:			
Advocacy	923,640		923,640
Building	386,568		386,568
Health system innovations	1,079,244		1,079,244
Other programs	195,772		195,772
Coronavirus Relief Fund Grant	4,889,223		4,889,223
Specialty societies	484,739		484,739
Total program services	<u>7,959,186</u>	<u>0</u>	<u>7,959,186</u>
Supporting services:			
Membership development	870,618		870,618
General and administrative	1,275,846		1,275,846
Total supporting services	<u>2,146,464</u>	<u>0</u>	<u>2,146,464</u>
Total operating expenses	<u>10,105,650</u>	<u>0</u>	<u>10,105,650</u>
Increase (decrease) in net assets	651,517	(36,265)	615,252
Net assets at the beginning of year	<u>14,057,224</u>	<u>70,293</u>	<u>14,127,517</u>
Net assets at the end of year	<u>\$ 14,708,741</u>	<u>\$ 34,028</u>	<u>\$ 14,742,769</u>

See accompanying notes to consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2019

5

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Support and revenues:			
Membership dues	\$ 2,342,780	\$	\$ 2,342,780
Investment income:			
Net realized and unrealized gains	1,149,540		1,149,540
Interest and dividends	251,578	47	251,625
Product service endorsements	1,114,098		1,114,098
Rental income	243,340		243,340
Specialty and county society services	462,400		462,400
Contributions		48,202	48,202
Annual meeting sponsor	54,398		54,398
Grants	220,000		220,000
Service fee revenue	196,198		196,198
Other	55,650		55,650
Net assets released from restrictions	170	(170)	
Total support and revenues	<u>6,090,152</u>	<u>48,079</u>	<u>6,138,231</u>
Operating expenses:			
Program services:			
Advocacy	1,105,063		1,105,063
Annual meeting	111,954		111,954
Building	425,678		425,678
Health system innovations	1,011,293		1,011,293
Other programs	369,072		369,072
Specialty societies	563,764		563,764
Total program services	<u>3,586,824</u>	<u>0</u>	<u>3,586,824</u>
Supporting services:			
Membership development	903,636		903,636
General and administrative	1,006,663		1,006,663
Total supporting services	<u>1,910,299</u>	<u>0</u>	<u>1,910,299</u>
Total operating expenses	<u>5,497,123</u>	<u>0</u>	<u>5,497,123</u>
Increase in net assets	593,029	48,079	641,108
Net assets at the beginning of year	<u>13,464,195</u>	<u>22,214</u>	<u>13,486,409</u>
Net assets at the end of year	<u>\$ 14,057,224</u>	<u>\$ 70,293</u>	<u>\$ 14,127,517</u>

See accompanying notes to consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	PROGRAM SERVICES						SUPPORTING SERVICES			TOTAL	
	Advocacy	Building	Health System Innovations	Other Programs	Coronavirus Relief Fund Grant	Specialty Societies	Total Program Services	Membership Development	General and Administrative	Total Supporting Services	2020
Salaries and benefits	\$ 563,415	\$ 113,168	\$ 938,568	\$ 75,652	\$ 62,142	\$ 400,275	\$ 2,153,220	\$ 652,520	\$ 791,436	\$ 1,443,956	\$ 3,597,176
Travel and meals	5,745	282	8,043	850		489	15,409	17,039	6,277	23,316	38,725
Employee education and training	1,295	386	4,232	647			6,560	2,256	4,249	6,505	13,065
Insurance		5,349		1,633			6,982	7,858	18,353	26,211	33,193
Maintenance contract		3,939		1,202			5,141	5,786	13,513	19,299	24,440
Bank and investment expenses		4,988		1,523	5		6,516	7,328	17,114	24,442	30,958
Office expenses and supplies	723	7,009	1,730	2,140	135	653	12,390	10,596	24,117	34,713	47,103
Telephone	6,743	4,523	3,476	1,381			16,123	6,866	17,927	24,793	40,916
Computer expenses and supplies	75,079	10,173		3,106			88,358	19,945	34,902	54,847	143,205
Professional fees and consulting	9,932	18,719	724	11,670	94,903	48,003	183,951	27,787	64,721	92,508	276,459
Delegates to AMA			300				300				300
Legislative relations	202,416						202,416				202,416
Board of Directors meetings			35,956				35,956				35,956
Program support				67,526	4,732,038		4,799,564				4,799,564
Building maintenance	50,422	216,427	75,791	11,957		34,554	389,151	50,947	32,377	83,324	472,475
Meetings	439	1,331		694			2,464	2,980	3,974	6,954	9,418
Membership development								54,302		54,302	54,302
Other	7,431	274	10,424	15,791		765	34,685	4,408	7,450	11,858	46,543
Independent expenditure committee									150,095	150,095	150,095
Candidate support									89,341	89,341	89,341
	<u>\$ 923,640</u>	<u>\$ 386,568</u>	<u>\$ 1,079,244</u>	<u>\$ 195,772</u>	<u>\$ 4,889,223</u>	<u>\$ 484,739</u>	<u>\$ 7,959,186</u>	<u>\$ 870,618</u>	<u>\$ 1,275,846</u>	<u>\$ 2,146,464</u>	<u>\$ 10,105,650</u>

See accompanying notes to consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	PROGRAM SERVICES						SUPPORTING SERVICES			TOTAL	
	Advocacy	Annual Meeting	Building	Health System Innovations	Other Programs	Specialty Societies	Total Program Services	Membership Development	General and Administrative	Total Supporting Services	2019
Salaries and benefits	\$ 704,447		\$ 122,209	\$ 797,067	\$ 36,099	\$ 451,067	\$ 2,110,889	\$ 627,480	\$ 777,540	\$ 1,405,020	\$ 3,515,909
Travel and meals	16,834		463	25,700	137	1,426	44,560	57,614	14,360	71,974	116,534
Employee education and training	1,649		458	12,576	135		14,818	5,742	8,374	14,116	28,934
Insurance			5,480		1,619		7,099	6,741	16,922	23,663	30,762
Maintenance contract			2,567		758		3,325	3,158	7,927	11,085	14,410
Bank and investment expenses			5,146		1,520		6,666	6,331	15,892	22,223	28,889
Office expenses and supplies	1,851		5,484		1,620		8,955	6,746	16,935	23,681	32,636
Telephone	8,671		5,700	1,308	1,684		17,363	7,013	19,618	26,631	43,994
Computer expenses and supplies	71,510		7,462		2,204		81,176	9,180	23,044	32,224	113,400
Professional fees and consulting	236		13,537	1,554	15,484	69,995	100,806	17,785	42,803	60,588	161,394
Delegates to AMA					57,983		57,983				57,983
Legislative relations	219,354						219,354				219,354
Board of Directors meetings				63,250			63,250				63,250
Program support	152			1,000	30,825		31,977	406	642	1,048	33,025
Building maintenance	61,310		251,363	73,824	2,825	39,282	428,604	59,143	39,975	99,118	527,722
Meetings	205	111,954	5,614	30,064	1,658	800	150,295	9,780	18,202	27,982	178,277
Membership development								84,965		84,965	84,965
Contribution to CCHN					196,198		196,198				196,198
Other	18,844		195	4,950	18,323	1,194	43,506	1,552	4,259	5,811	49,317
Candidate support									170	170	170
	<u>\$ 1,105,063</u>	<u>\$ 111,954</u>	<u>\$ 425,678</u>	<u>\$ 1,011,293</u>	<u>\$ 369,072</u>	<u>\$ 563,764</u>	<u>\$ 3,586,824</u>	<u>\$ 903,636</u>	<u>\$ 1,006,663</u>	<u>\$ 1,910,299</u>	<u>\$ 5,497,123</u>

See accompanying notes to consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

8

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from members, contributors, and grantors	\$ 9,518,534	\$ 4,701,935
Cash paid to suppliers, employees, and grantees	<u>(9,836,445)</u>	<u>(5,041,603)</u>
Net cash used in operating activities	<u>(317,911)</u>	<u>(339,668)</u>
Cash flows from investing activities:		
Purchase of marketable securities	(1,171,697)	(9,366,883)
Proceeds from sale of marketable securities	2,287,657	9,223,528
Purchases of property and equipment	<u>(74,509)</u>	<u></u>
Net cash provided by (used in) investing activities	<u>1,041,451</u>	<u>(143,355)</u>
Net increase (decrease) in cash and cash equivalents	723,540	(483,023)
Cash and cash equivalents at beginning of year	<u>1,799,389</u>	<u>2,282,412</u>
Cash and cash equivalents at end of year	<u>\$ 2,522,929</u>	<u>\$ 1,799,389</u>
Unrestricted cash and cash equivalents at end of year	\$ 2,488,901	\$ 1,729,096
Restricted cash and cash equivalents at end of year	<u>34,028</u>	<u>70,293</u>
Cash and cash equivalents at end of year	<u>\$ 2,522,929</u>	<u>\$ 1,799,389</u>

See accompanying notes to consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

9

	<u>2020</u>	<u>2019</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 615,252	\$ 641,108
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation	346,093	349,533
Net realized and unrealized gains on marketable securities	(815,593)	(1,149,540)
Interest and dividends reinvested	(252,236)	(251,625)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(50,397)	(35,131)
Prepaid expenses	(10,075)	12,646
Increase (decrease) in:		
Accounts payable and accrued expenses	(48,126)	24,930
Accrued payroll and related liabilities	7,422	4,632
Agency obligations	37,224	(53,878)
Contract liabilities	(194,919)	62,657
Conditional contribution	110,777	
Deferred compensation	(63,333)	55,000
Net cash used in operating activities	<u>\$ (317,911)</u>	<u>\$ (339,668)</u>

See accompanying notes to consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Organization and nature of activities:

The Medical Society of the State of North Carolina was incorporated by the General Assembly of North Carolina on April 16, 1849. On July 6, 1972, its name was changed to North Carolina Medical Society ("NCMS"). NCMS is recognized as a tax-exempt organization under Internal Revenue Code 501(c)(6). The purpose of NCMS is to organize members of the medical profession to advance medical science and elevate standards of medical education and service.

The North Carolina Medical Society Political Education and Action Committee (the "PAC") is a segregated fund as defined under Section 527(f) of the Internal Revenue Code. The PAC was created pursuant to the Federal Election Campaign Act and is regulated by the Federal Election Commission. The PAC represents over 12,500 physicians, physician assistants, residents, and medical students.

Citizens for a Healthy North Carolina ("CHNC") is a segregated fund as defined under Section 527(f) of the Internal Revenue Code. This is an independent expenditure committee created pursuant to Article 22A, 22B, and 22D-M of Chapter 163 of the North Carolina General Statutes.

NCMS's programs, in accordance with its Strategic Plan, include member advocacy, legislation and regulation, health policy and research, member benefits and services, specialty society relations, managed care and practice management, AMA delegation, education, quality, access and healthcare reform initiatives, professional liability reform and support of affiliated organizations such as the North Carolina Medical Society Foundation (the "Foundation").

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of NCMS, the PAC, and CHNC (collectively, the "Organization"). All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

Basis of accounting and presentation:

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"), and accordingly reflect all significant receivables, payables, and other liabilities.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted is met, or both.

Functional allocation of expenses:

The costs of providing the programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets and consolidated statements of functional expenses.

Directly identifiable expenses are charged to the appropriate programs and supporting services. Certain categories of expenses are attributable to more than one program or supporting service and are allocated on a reasonable basis that is consistently applied. These expense categories are allocated on the basis of time and effort spent by personnel or usage.

Advertising costs:

The Organization expenses advertising costs as incurred. There were no advertising expenses for the years ended December 31, 2020 and 2019.

Estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of the consolidated financial statements, the Organization considers all investments with an original maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents consists of cash restricted for the purpose of federal and state candidate support and lobbying.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts receivable:

Accounts receivable are uncollateralized obligations due from various sources and are reported net of allowances for amounts estimated to be uncollectible. Based on experience, management believes that the entire amount receivable, except for the NCMS receivable from Carolina Complete Health Network ("CCHN"), is fully collectible. An allowance for \$1,466,662 of the receivable from CCHN has been recorded as of December 31, 2020 and 2019. See Note 11 for additional information on this receivable. No other allowances for doubtful accounts have been recorded.

Marketable securities:

Marketable securities include investments in publicly traded equity securities and mutual funds and are recorded at fair value. Realized and unrealized gains and losses during the year are recognized in the consolidated statements of activities and changes in net assets and are included as a component of investment income. Realized gains and losses are determined on the specific identification method.

Property and equipment:

Property and equipment are stated at cost, if purchased, or at estimated fair value at the date of the gift, if donated, less accumulated depreciation. Depreciation is computed primarily on the straight-line method based on the following estimated useful lives:

Buildings and improvements	10-50 years
Furniture, fixtures and equipment	3-10 years
Vehicles	5 years

Depreciation expense totaled \$346,093 and \$349,533 for the years ended December 31, 2020 and 2019, respectively. It is the Organization's policy to capitalize property and equipment with an original cost of \$500 or more and an estimated useful life of more than one year. Maintenance and repairs are charged to expenses while major renewals are capitalized. The cost of equipment, retired or disposed, and the related depreciation are eliminated from the accounts, with the resulting gains or losses included in operations.

Agency obligations:

The Organization collects membership dues from its members on behalf of certain county medical societies. The Organization also collects contributions for the Foundation and other related organizations. These funds are then remitted to the appropriate organization.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income taxes:

NCMS is a nonprofit organization as described in Section 501(c)(6) of the Internal Revenue Code ("IRC") and is exempt from federal and state income taxes. The PAC and CHNC are political organizations as described in IRC Section 527 and treated as tax-exempt organizations to the extent provided for in that section.

The Organization evaluates all significant tax positions in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 740-10, *Income Taxes*. As of December 31, 2020, the Organization does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for tax years prior to 2017.

Recognition of support:

Contributions received are recorded as support with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as support with donor restrictions, which increases the respective net asset class. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions received by NCMS whose restrictions are met in the same reporting period are recorded as net assets without donor restrictions.

Revenue recognition:

In accordance with FASB Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers ("Topic 606")*, contract revenue (including membership dues, product service endorsements, specialty and county society services, and grants) is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services. These amounts are due from physicians, physician practices, and others.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Organization's initial estimate of the transaction price, for services provided, is determined by reducing the total standard charges related to services provided by various elements of variable consideration. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to contract revenue in the period of change. For the years ended December 31, 2020 and 2019, changes in the Organization's estimates to expected payments for performance obligations satisfied in prior years were not significant.

Net contract revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization.

For membership dues, net contract revenue for performance obligations is recognized at a single point in time when the risks and rewards transfer. Revenues are recognized in the year for which the revenues are earned.

For product service endorsements, specialty and county society services, and grants, net contract revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The Organization believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. The Organization measures the performance obligation concurrently with its fiscal year of January through December.

The timing of revenue recognition may differ from the timing of invoicing. Contract assets include unbilled amounts that occur when revenues recognized exceed the amounts invoiced to customers. Such amounts are recoverable based upon various measures of performance. Contract liabilities arise when amounts invoiced exceed revenues recognized. Membership dues received prior to year-end for the upcoming dues year are reported as contract liabilities.

Reclassification:

Certain financial information from the 2019 consolidated financial statements has been reclassified to conform to 2020 consolidated financial statement presentation with no effect on previously reported changes in net assets.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Change in accounting principle:

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement ("Topic 820")*. The amendments in this ASU modify the disclosure requirements on fair value measurements. Selective disclosure requirements were removed from Topic 820 while other disclosure requirements were modified, and some disclosure requirements were added. Certain disclosures that are required by the amendments in this ASU are not required for nonpublic entities. The provisions of ASU No. 2018-13 became effective for the Organization on January 1, 2020. The adoption of this standard did not have a material impact on the accompanying consolidated financial statements of the Organization for the year ended December 31, 2020.

Recent accounting pronouncements not yet adopted:

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. In June 2020, the FASB issued ASU No. 2020-05 as a limited deferral of the effective dates of ASU No. 2016-02 and amendments issued after the issuance of the original ASU, to provide immediate, near-term relief for private companies and nonprofits for whom these ASUs are either currently or imminently effective. Under ASU No. 2020-05, the amended effective date for the Organization will be for fiscal years beginning after December 15, 2021. The Organization is assessing the potential effects on future consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities ("Topic 958"): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve financial reporting by providing new presentation and disclosure requirements regarding nonfinancial assets for nonprofits, including additional disclosure requirements for recognized contributed services. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The amendments will not change the recognition and measurement requirements for those assets. The ASU is effective for fiscal years beginning after June 15, 2021. The Organization is assessing the potential effects on future consolidated financial statements.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Concentrations of Credit Risk:

The Organization maintains cash balances at various financial institutions located in North Carolina. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2020 and 2019, the Organization's uninsured cash balances were \$2,181,567 and \$1,464,865, respectively.

For the years ended December 31, 2020 and 2019, the Organization received 5% and 15%, respectively, of its revenue pursuant to a service agreement with the North Carolina Medical Society Employee Benefit Trust. Accounts receivable related to this agreement represented 18% and 40% of accounts receivable at December 31, 2020 and 2019, respectively. See Note 11.

3. Liquidity and Availability:

Financial assets available for general expenditure, that is, without donor restriction or other restrictions limiting their use, within one year of the consolidated statement of financial position, are comprised of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,522,929	\$ 1,799,389
Marketable securities	8,835,775	8,883,906
Accounts receivable	<u>604,909</u>	<u>554,512</u>
	11,963,613	11,237,807
Less: board designated net assets	(3,897,508)	(3,897,508)
Less: net assets with donor restrictions	<u>(34,028)</u>	<u>(70,293)</u>
Financial assets available for general expenditures over the next twelve months	<u>\$ 8,032,077</u>	<u>\$ 7,270,006</u>

The Organization manages its liquidity and reserves following three guiding principles: (1) operating within a prudent range of financial soundness and stability, (2) maintaining adequate liquid assets to fund near-term operating needs, and (3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Included in financial assets available for general expenditures over the next twelve months are net assets designated by the Board of Directors for "operations". These net assets totaled \$1,000,000 at December 31, 2020 and 2019.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accounts Receivable, Contract Assets, and Contract Liabilities:

Contract balances are included in the accompanying consolidated statements of financial position under the following captions at December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ 604,909	\$ 554,512	\$ 519,381
Contract liabilities	\$ 860,725	\$ 1,055,644	\$ 992,987

There were no contract assets as of December 31, 2020, 2019, or 2018.

5. Marketable Securities:

As of December 31, 2020 and 2019, the Organization maintained investments in equity and fixed income securities. A summary of the Organization's investments at December 31, 2020 reported at fair value, is as follows:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Equities	\$ 4,865,101	\$ 5,630,407	\$ 765,306
Fixed income	<u>3,114,636</u>	<u>3,205,368</u>	<u>90,732</u>
	<u>\$ 7,979,737</u>	<u>\$ 8,835,775</u>	<u>\$ 856,038</u>

A summary of the Organization's investments at December 31, 2019, reported at fair value, is as follows:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Equities	\$ 5,539,673	\$ 5,656,484	\$ 116,811
Fixed income	<u>3,224,244</u>	<u>3,227,422</u>	<u>3,178</u>
	<u>\$ 8,763,917</u>	<u>\$ 8,883,906</u>	<u>\$ 119,989</u>

Marketable securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain marketable securities, it is reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment fees for the years ended December 31, 2020 and 2019 were \$20,786 and \$17,205, respectively, and are netted with interest and dividends on the accompanying consolidated statements of activities and changes in net assets.

6. Fair Value Measurements:

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active and alternative investments redeemable at or near the date of the consolidated statements of financial position (generally within 90 days).

Level 3 inputs are unobservable inputs for the asset or liability and include alternative investments that are not redeemable at or near the date of the consolidated statements of financial position.

At December 31, 2020, the fair value of the Organization's marketable securities was determined based on the following:

Fair Value Measurements Using:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 5,630,407	\$ 5,630,407	\$	\$
Fixed income	<u>3,205,368</u>	<u>3,205,368</u>	<u> </u>	<u> </u>
Total	<u>\$ 8,835,775</u>	<u>\$ 8,835,775</u>	<u>\$ 0</u>	<u>\$ 0</u>

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2019, the fair value of the Organization's marketable securities was determined based on the following:

	<u>Fair Value Measurements Using:</u>			
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 5,656,484	\$ 5,656,484	\$	\$
Fixed income	<u>3,227,422</u>	<u>3,227,422</u>	<u> </u>	<u> </u>
Total	<u>\$ 8,883,906</u>	<u>\$ 8,883,906</u>	<u>\$ 0</u>	<u>\$ 0</u>

7. Retirement Savings Plan:

The Organization has a qualified defined contribution retirement savings plan. Under the terms of the plan, all employees who have more than 90 days of service are eligible to participate. Employee contributions to the plan are made through voluntary contributions by eligible participants. Total employee and employer contributions are not to exceed maximums set by the Internal Revenue Code. For the years ended December 31, 2020 and 2019, the Organization elected to make discretionary contributions of 4% of eligible employee salary plus individualized supplemental contributions for certain long-term service employees who were covered under a former defined benefit plan. Total employer contributions for the years ended December 31, 2020 and 2019 were \$154,287 and \$150,367, respectively.

8. Commitments and Contingencies:

The Organization is party to various legal proceedings incidental to its members. Certain claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against the Organization. In the opinion of management, these actions will likely be successfully defended or resolved without material adverse effect on the consolidated financial position of the Organization.

During 2011, NCMS made a \$500,000, five-year contingent pledge to the Foundation for the establishment of the Kanof endowment. There were no pledge payments made during the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, \$200,000 remained contingent on the availability of funds. Due to the contingent nature of this pledge, no liability has been recorded as of December 31, 2020 and 2019.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Board Designated Net Assets:

The Organization's Board of Directors has designated portions of the net assets without donor restrictions balance for future needs. Marketable securities of \$1,000,000 are designated for the operating reserve for the years ended December 31, 2020 and 2019. Specific assets are also designated for property and equipment replacements and the CCHN reserve. Board designated net assets are available for the following purposes at December 31, 2020 and 2019:

Operating reserve	\$ 1,000,000
Property and equipment replacements	3,397,508
CCHN reserve	<u>500,000</u>
	<u>\$ 4,897,508</u>

There have been no expenditures of board designated net assets during the years ended December 31, 2020 and 2019.

10. Net Assets with Donor Restrictions:

Purpose restricted net assets:

Net assets in the amounts of \$34,028 and \$70,293 were restricted for the purpose of federal and state candidate support and lobbying as of December 31, 2020 and 2019, respectively.

Perpetual in nature net assets:

The Organization did not have any net assets perpetual in nature as of December 31, 2020 or 2019.

11. Related Party Transactions:

The Organization is related to the Foundation by common management; however, the elements of control necessary for consolidation are not present. The Organization receives donations on behalf of the Foundation and distributes these funds to the Foundation. These donations are treated as agency obligations, and therefore, are not reflected in the consolidated statements of activities and changes in net assets. The accounting records of the Foundation are maintained by Organization personnel who also provide legal representation and promotional services to the Foundation. During the years ended December 31, 2020 and 2019, the Organization received \$459,446 and \$422,177, respectively, for these services. The Organization also pays certain direct expenses of the Foundation that are reimbursed monthly. These expenses totaled \$90,235 and \$137,477 for the years ended December 31, 2020 and 2019, respectively. During each of the years ended December 31, 2020 and 2019, the Foundation contributed \$200,000 towards the Organization's mission, which is included in grants in

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the consolidated statements of activities and changes in net assets. The Organization made donations of \$381,917 and \$290,713 to the Foundation for in-kind services during the years ended December 31, 2020 and 2019, respectively. Accounts receivable as of December 31, 2020 and 2019 includes \$79,631 and \$54,054, respectively, due from the Foundation. Accounts payable due to the Foundation totaled \$505 as of December 31, 2019. There were no accounts payable due to the Foundation as of December 31, 2020.

The Organization provides services to affiliated specialty societies and a county medical society. In exchange for these services, the Organization receives management fees. During the years ended December 31, 2020 and 2019, the Organization earned \$407,401 and \$462,400, respectively, for these services. The Organization also pays certain direct expenses on behalf of these affiliates that are either reimbursed monthly or quarterly. These expenses totaled \$484,739 and \$563,764, respectively, for the years ended December 31, 2020 and 2019. Accounts receivable as of December 31, 2020 and 2019 includes \$258,498 and \$236,472, respectively, due from these affiliates. There were no accounts payable due to these affiliates as of December 31, 2020 and 2019.

The Organization provides certain accounting and management services to CCHN. During the years ended December 31, 2020 and 2019, the Organization earned \$300,000 and \$196,198, respectively, for these services which are included in service fee revenue on the consolidated statements of activities and changes in net assets. The Organization also pays certain direct expenses on behalf of CCHN. These expenses totaled \$255,170 for the year ended December 31, 2019. There were no such expenses paid on behalf of CCHN during the year ended December 31, 2020. At December 31, 2020, the collectible portion of the receivable balance due from CCHN was \$75,000. The remaining balance of \$1,466,662 at December 31, 2020 and 2019 was deemed uncollectible and fully reserved for.

The Organization has an unfunded non-qualified deferred compensation plan for certain officers and directors. As of December 31, 2020 and 2019, the total liability of this plan was \$131,667 and \$195,000, respectively. The total contributions and benefits paid from this plan totaled \$36,667 and \$100,000, respectively, during the year ended December 31, 2020. The total contributions to this plan totaled \$55,000 during the year ended December 31, 2019.

The Organization sponsors the North Carolina Medical Society Employee Benefit Trust, which is a North Carolina domiciled multiple employer welfare arrangement ("MEWA"). The Organization provides services in the form of communications, marketing, and customer services pursuant to a service agreement. The Organization receives a service fee based on the number of enrolled employees per month. For the years ended December 31, 2020 and 2019, the service fee totaled \$566,044 and \$949,098, respectively. This amount is included in product service endorsements on the consolidated statements of activities and changes in net assets. As of December 31, 2020 and 2019, the Organization had accounts receivable due from the MEWA of \$110,591 and \$221,000, respectively.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Investment in Subsidiary:

On May 16, 2016, NCMS incorporated CCHN, formerly known as Formation Subsidiary, Inc., for the purpose of establishing, building and maintaining a physician-led network of providers to serve Medicaid beneficiaries in North Carolina. On January 10, 2017, NCMS, working in conjunction with the North Carolina Community Health Center Association, announced CCHN had signed a definitive agreement with Centene Corporation to collaborate on a patient-focused approach to Medicaid under the reform plan enacted in the State of North Carolina. Under the agreement, a joint venture, Carolina Complete Health was created to establish, organize and operate a physician-led health plan to provide Medicaid managed care services in North Carolina. CCHN will furnish provider network services to Carolina Complete Health to serve Medicaid beneficiaries with value-based models-of-care. A key feature of the joint venture will be the active participation of physicians in the ownership and governance of the health plan. Centene will manage the financial and daily operations, while CCHN, which is owned jointly by NCMS, physicians, physician assistants, nurse practitioners and Federally Qualified Health Centers, will provide medical policies for the health plan. This partnership seeks to engage all North Carolina physicians including those in primary care specialties like pediatrics, family medicine and obstetrics and gynecology as well as hospital-based physicians and the wide diversity of specialties and sub-specialties necessary to serve the Medicaid population of the state. Prior to January 19, 2018, NCMS owned 100% of the common stock of CCHN, having a par value of \$1. As of January 19, 2018, NCMS owned 50% of CCHN with the remaining 50% owned by physicians, physician assistants, nurse practitioners and Federally Qualified Health Centers. As CCHN had a deficit at December 31, 2020 and 2019, and NCMS recognizes its investment in CCHN using the equity method, NCMS did not record an investment in subsidiary for CCHN at December 31, 2020 and 2019.

13. COVID-19:

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency in response to the widespread outbreak of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

In assessing the recoverability of certain assets, including accounts receivable, the Organization has considered internal and external information up to the date the consolidated financial statements were available to be issued, including credit reports and economic factors. Based on the current indicators of future economic conditions, the Organization expects to recover the carrying amount of these assets.

NORTH CAROLINA MEDICAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The pandemic has adversely affected global economic activity and contributed to deterioration and instability in financial markets. Marketable securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of marketable securities will occur in the near term and that such changes could materially affect the Organization's account balances and the amounts reported in the consolidated statements of financial position and consolidated statements of activities and changes in net assets. Because the values of the Organization's investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and the related impact on the Organization's liquidity cannot be determined at this time.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

In response to COVID-19 Recovery Legislation enacted by Congress, the General Assembly of North Carolina ratified House Bill 1043 in July 2020. As a result of House Bill 1043, the Organization received \$5,000,000 to allocate to independent medical practices in the state of North Carolina. These funds were to be used for (i) the purchase of supplies and equipment necessary for life safety, health, and sanitation, such as ventilators, touch-free thermometers, gowns, disinfectant, and sanitizing wipes, and (ii) the purchase of personal protective equipment that meets the federal standards and guidelines from the Centers for Disease Control and Prevention, such as surgical and respiratory masks and gloves. Through December 31, 2020, the Organization had spent \$4,889,223 of the grant. This amount is included under grant support in the consolidated statements of activities and changes in net assets.

14. Subsequent Events:

The Organization has evaluated subsequent events through October 19, 2021, the date which the consolidated financial statements were available to be issued.

On July 1, 2021, the State of North Carolina transitioned to Medicaid Managed Care. Nearly 1.6 million Medicaid beneficiaries began receiving services through North Carolina Medicaid Managed Care health plans, including Carolina Complete Health Network (CCHN).

No other significant subsequent events have been identified by management.