

**STATE BOARD OF EXAMINERS
OF ELECTRICAL CONTRACTORS
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS

JUNE 30, 2018 AND 2017

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Independent Auditors' Report

The Honorable Roy A. Cooper
Governor of North Carolina
State Board of Examiners of Electrical Contractors
The General Assembly of North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the State Board of Examiners of Electrical Contractors as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 State Board of Examiners of Electrical Contractors as of June 30, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State Board of Examiners of Electrical Contractors and do not purport to, and do not present fairly the financial position of the State of North Carolina, as of June 30, 2018 and June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* on pages 5-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Postemployment Benefits

Accounting principles generally accepted in the United States of America require that certain disclosures concerning other postemployment benefits be presented as required supplementary information (see page 23) to 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. The required supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and we have applied certain limited procedures, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of basic financial statements. In our opinion, the information is fairly stated

in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 7, 2018 and August 17, 2017 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Barnett, Doll & Associates, Ltd.

Durham, North Carolina
September 7, 2018

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

This section of the North Carolina State Board of Examiners of Electrical Contractors financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2018. This information should be read in conjunction with the audited financial statements included in this report.

Overview of the Financial Statements

The Statements of Net Position provide information relative to the Board's assets, liabilities, and the resulting net position as of the last day of the fiscal year. Assets and liabilities on these statements are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. The Board currently has unearned license fees allocable to future years which constitute deferred inflows. Net position on these statements is categorized as either invested in capital assets or unrestricted. Overall, the statements of Net Position provide information relative to the financial strength of the board and its ability to meet current and long-term obligations.

The Statements of Revenues, Expenses, and Changes in Net Position provide information relative to the results of the Board's operations, non-operating activities, and other activities affecting net position that occurred during the fiscal year. Operating activities include the licensure and examination activities for the public practice of electrical contracting in the State. Non-operating activities include primarily investment income and, occasionally, income from sale of equipment. Overall, the Statements of Revenues, Expenses, and changes in net Position provide information relative to the Board's management of its operations and its ability to maintain its financial strength. The above statements are articulated by agreeing the ending net position reported on both statements.

The Statements of Cash Flows provide information relative to the Board's sources and uses of cash funds for operating activities, capital financing activities, and investing activities. These statements provide a reconciliation of beginning cash balances to ending cash balances and are representative of activity reported on the Statements of Revenues, Expenses, and Changes in Net Position as adjusted for changes in beginning and ending balances of noncash accounts on the Statements of Net Position.

The three statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with GASB, the financial statements are presented on the Board as a whole and use reporting concepts in a manner similar to that required of a business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balances.

In using the basic financial statements, the Notes to the Financial Statements should be read in conjunction with the basic financial statements. The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the basic financial statements, authority for and associated risk of deposits and investments, detailed information on capital assets and noncurrent liabilities, revenues,

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

and expenses, and required information on pension plans. Overall, the Notes to the Financial Statements provide information to better understand details, risks, and uncertainties associated with amounts reported in the basic financial statements.

Financial Analysis

Net position is an indicator of the financial health of the Board. The Board's net position increased from \$484,536 as of June 30, 2016 to \$631,975 as of June 30, 2018, an increase of \$147,439.

Condensed Statements of Net Position

The following condensed statements summarize the Board's assets, liabilities and net position as of June 30, 2018, 2017 and 2016.

	Condensed Statement of Net Position		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current assets	\$1,892,352	\$1,690,330	\$1,602,933
Capital assets	<u>76,162</u>	<u>66,239</u>	<u>63,036</u>
Total assets	<u>1,968,514</u>	<u>1,756,569</u>	<u>1,665,969</u>
Liabilities:			
Current liabilities	103,299	104,638	109,278
Long-term liabilities	<u>396,397</u>	<u>397,162</u>	<u>358,618</u>
Total liabilities	499,696	501,800	467,896
Unearned revenue	<u>836,843</u>	<u>805,840</u>	<u>830,519</u>
Total liabilities and unearned revenue	1,336,539	1,307,640	1,298,415
Net Position:			
Invested in capital assets	76,162	66,239	63,036
Unrestricted	<u>555,813</u>	<u>382,690</u>	<u>304,518</u>
Total net position	<u>\$ 631,975</u>	<u>\$ 448,929</u>	<u>\$ 367,554</u>

Current Assets

Current assets consist principally of cash and certificates of deposit of \$1,859,598, \$1,658,683 and \$1,527,502, respectively as of June 30, 2018, 2017 and 2016. However, in years prior to June 30, 2017 the Board maintained an inventory of Code Books for sale to licensees and others and totaled \$51,244 in 2016. The Board no longer sells Code Books.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Capital Assets

Capital assets are reflected below:

	<u>2018</u>	Capital Assets June 30, <u>2017</u>	<u>2016</u>
Furniture and Equipment	\$349,394	\$ 875,419	\$ 870,508
Vehicles	<u>129,421</u>	<u>130,210</u>	<u>181,649</u>
Total	<u>\$478,815</u>	<u>\$1,005,629</u>	<u>\$1,052,157</u>

The Board purchased one vehicle in 2018 and one in 2017 along with equipment in both years. In 2018 the Board sold one vehicle and in 2017 it sold 3 vehicles. In 2018 the Board leased its new licensing software which made its prior software obsolete. The software totaling \$545,099 was fully amortized and was written off.

Liabilities

GASB 75, Accounting and Reporting for Postemployment Benefits Other Than Pensions, became effective in 2018. The effect was to reflect the total Other Postemployment Benefits (OPEB) liability at the beginning of the earliest year presented in the Board's financial statements (2017). Accordingly, the OPEB liability for 2017 reflects \$376,309 and for 2018 \$373,472 which substantially increased that liability by \$109,932 in 2017 and reduced the liability \$2,837 in 2018.

Net Position

The Board's net position consists of amounts invested in capital assets as of June 30, 2018, 2017 and 2016 of \$76,162, \$66,239 and \$63,036, respectively, and unrestricted net position of \$555,813, \$382,690 and \$421,500. The Board has made certain internal designations of these unrestricted amounts.

The following Condensed Statements of Revenues, Expenses and Changes in Net Position present the Board's operating results for the years ending as indicated:

Condensed Statement of Revenues, Expenses and Changes in Net Position
For The years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues:			
License fees	\$1,447,612	\$1,466,049	\$1,377,445
Exam fees	131,605	100,900	97,650
Other	<u>78,132</u>	<u>124,907</u>	<u>165,646</u>
	<u>1,657,349</u>	1,691,856	1,640,741

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Expenses:			
Salaries and employee benefits	\$ 728,261	\$ 796,586	\$ 797,937
Professional fees	187,961	196,392	202,575
Insurance	125,584	122,049	125,491
Rent	61,808	60,301	58,915
Costs-Code Books	7,491	51,244	140,668
Other	368,479	369,485	346,850
Postemployment benefits other than pensions	<u>6,733</u>	<u>39,277</u>	<u>41,885</u>
	<u>1,486,317</u>	<u>1,635,334</u>	<u>1,714,321</u>
Operating Income (Loss)	<u>171,032</u>	<u>56,522</u>	<u>(73,580)</u>
Non-operating Income (Expenses)	<u>12,014</u>	<u>24,853</u>	<u>8,607</u>
Change in Net Position	183,046	81,375	(64,973)
Net Position - Beginning	<u>448,929</u>	<u>367,554</u>	<u>304,518</u>
Net Position - Ending	<u>\$ 631,975</u>	<u>\$ 448,929</u>	<u>\$ 367,554</u>

Operating Revenues

Operating Revenues were \$1,657,349, \$1,691,856 and \$1,640,741 for the years ended June 30, 2018, 2017 and 2016 respectively. The increased revenue in 2017 primarily relates to license fees. Licensee renewal occurs in all twelve months of a year which necessitates a calculation of amounts deferred to another Board fiscal year. The change in deferred license fees from one year to the next can increase license revenue or decrease license revenue. The increase in license revenue attributable to a change in deferred revenue amounted to approximately \$40,000 in 2017 while license revenue remained somewhat stable in 2018. A new Board rule effective early in the 2017 fiscal year, caused licensees who were approaching twelve months of delinquency to renew before passing the twelve month time line. Renewals would revert back to the original expiration date and may have required a licensee to renew an additional time, as well, within the same fiscal year of the Board.

Operating Expenses

Management's focus on cost control helped to reduce expenses from June 30, 2016 to June 30, 2017 and again for the June 30, 2018 statements. In 2018 and 2017 the Board no longer sells code books.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Request for information

This report is intended to provide a summary of the financial position the NC State Board of Examiners of Electrical Contractors. Questions or requests for additional information should be addressed to Tim Norman, Executive Director, 3101 Industrial Drive, Suite 206, Raleigh, NC 27609, 919-733-9042

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
STATEMENTS OF NET POSITION
ENTERPRISE FUND
JUNE 30,

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 1,301,853	\$ 1,101,654
Certificates of deposit	<u>557,745</u>	<u>557,029</u>
Total	1,859,598	1,658,683
Prepaid expense (Note 6)	<u>32,754</u>	<u>31,647</u>
Total Current Assets	1,892,352	1,690,330
Noncurrent assets:		
Capital assets (Note 8)		
Furniture and equipment	349,394	875,419
Vehicles	<u>129,421</u>	<u>130,210</u>
	478,815	1,005,629
Less accumulated depreciation	<u>402,653</u>	<u>939,390</u>
Total Noncurrent Assets	<u>76,162</u>	<u>66,239</u>
Total Assets	<u>1,968,514</u>	<u>1,756,569</u>
LIABILITIES		
Current liabilities		
Accounts payable	67,156	47,154
Accrued vacation (Note 9)	36,143	40,506
Amount due engineering foundation (Note 7)	<u>16,978</u>	<u>16,978</u>
Total Current Liabilities	<u>103,299</u>	<u>104,638</u>
Long-term liabilities		
Liability for postemployment benefits other than pensions (Note 5)	373,472	376,309
Accrued vacation (Note 9)	<u>22,925</u>	<u>20,853</u>
Total Long-term liabilities	<u>396,397</u>	<u>397,162</u>
Total Liabilities	499,696	501,800
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	836,843	805,840
NET POSITION		
Net Investment in capital assets	76,162	66,239
Unrestricted (Note 6)	<u>555,813</u>	<u>382,690</u>
Total Net Position	<u>\$ 631,975</u>	<u>\$ 448,929</u>

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUND
JUNE 30,

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Charges for services:		
License fees	\$ 1,447,612	\$ 1,466,049
Examination and application fees	131,605	100,900
Code books		53,930
Administrative fees	53,475	54,935
Other	24,657	16,042
	<hr/>	<hr/>
Total operating revenues	1,657,349	1,691,856
OPERATING EXPENSES		
Office rent (Note 3)	61,808	60,301
Telecommunications	12,580	13,589
Insurance	125,584	122,049
Postage	12,619	18,493
Office supplies	14,644	16,058
Equipment maintenance	55,842	51,670
Outside printing	2,895	443
Depreciation	34,770	27,326
Audit expense	10,120	7,300
Board member expense	45,507	46,145
Staff expense	58,180	52,824
Legal fees	166,741	177,992
Salaries and temporary labor	642,293	697,939
Payroll taxes	45,229	50,018
Retirement (Note 4)	40,739	48,629
Postemployment benefits other than pensions (Notes 5 and 11)	6,733	39,277
Sales tax		3,410
Dues and publications	1,367	1,374
Exam expense	64,055	62,875
Payroll services	2,108	2,078
Accounting services	11,100	11,100
Miscellaneous	3,121	1,076
Costs - code books	7,491	51,244
Credit card transaction fees	39,324	39,860
Background searches	6,343	6,695
Engineering Foundation (Note 7)		16,978
Civil penalties	15,124	8,591
	<hr/>	<hr/>
Total operating expenses	1,486,317	1,635,334
Operating income	\$ 171,032	\$ 56,522

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUND
JUNE 30,

	<u>2018</u>	<u>2017</u>
NONOPERATING REVENUES (EXPENSES):		
Interest Income	\$ 8,357	\$ 7,915
Gain on sale of vehicles	<u>3,657</u>	<u>16,938</u>
Nonoperating revenues (expenses)	<u>12,014</u>	<u>24,853</u>
Change in net position	183,046	81,375
Restatement of beginning net position :		
As previously reported	448,929	484,536
Other postemployment benefits adjustment (Note11)	<u>448,929</u>	<u>(116,982)</u>
	<u>448,929</u>	<u>367,554</u>
Unrestricted net position - ending	<u>\$ 631,975</u>	<u>\$ 448,929</u>

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
JUNE 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from licensees and applicants	\$ 1,579,217	\$ 1,566,949
Cash received from others	78,132	124,907
Cash paid to employees and professionals	(832,545)	(904,720)
Cash paid to suppliers	<u>(591,210)</u>	<u>(650,279)</u>
Net cash flows from operating activities	233,594	136,857
 Cash flows from capital and related financing activities		
Acquisition of capital assets	(44,693)	(30,529)
Proceeds from sale of vehicles	<u>3,657</u>	<u>16,938</u>
	(41,036)	(13,591)
 Cash flows from investing activities		
(Increase in) certificates of deposit	(716)	(714)
Receipt of interest income	<u>8,357</u>	<u>7,915</u>
Net cash flows from investment activities	7,641	7,201
 Net change in cash and cash equivalents	200,199	130,467
 Cash and cash equivalents - beginning	<u>1,101,654</u>	<u>971,187</u>
 Cash and cash equivalents - ending	<u><u>\$ 1,301,853</u></u>	<u><u>\$ 1,101,654</u></u>
 Reconciliation of operating income to net cash flows from operating activities		
Operating Income	\$ 171,032	\$ 56,522
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	34,770	27,326
Changes in assets and liabilities:		
Decrease in inventory		51,244
(Increase) in prepaid expenses	(1,107)	(7,460)
Increase (decrease) in accounts payable	20,002	(7,458)
Decrease in accrued vacation	(2,291)	(10,389)
Increase (decrease) in unearned revenue	31,003	(24,679)
Decrease in liability for postemployment benefits	(2,837)	34,773
Increase (decrease) in amount due Engineering Foundation	<u>(16,978)</u>	<u>16,978</u>
Net cash provided by operating activities	<u><u>\$ 233,594</u></u>	<u><u>\$ 136,857</u></u>

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 – Summary of Significant Accounting Policies

Description of Organization

The State Board of Examiners of Electrical Contractors (the Board) is an occupational licensing board and is authorized under Chapter 87 of the North Carolina General Statutes.

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.

Basis of Presentation

The statement of net position reflects all assets including long-term assets, and all obligations including long-term obligations.

The statement of revenues, expenses and changes in net position presents a comparison between direct expenses and program revenues of the Board. Primary revenues include fees and other charges paid by licensees.

Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, the Board's accounts are maintained during the year using the modified accrual basis of accounting. However, at year-end, financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash flows take place.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - continued

Use of Estimates

The preparation of 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.

Deferred Inflows of Resources

Unearned revenues consist principally of license fees collected in advance.

Capital Assets

Capital assets are defined by the Board as assets with an initial individual cost of \$300 or more and an estimated useful life of more than two years. Purchased assets are reported at cost. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are expensed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5 - 10
Computer equipment	3 - 4
Vehicles	4 - 5

Accrued Vacation

The vacation leave policy of the Board provides for accumulation of earned vacation leave with such leave being fully vested when earned. Because vacation leave is payable to employees at termination, a liability for the outstanding balances has been recorded. That portion of accrued vacation that is estimated to be used in the next fiscal year has been designated as a current liability in the financial statements (first-in, first-out method of using accumulated time).

Postemployment Benefits Other Than Pensions

The Board provides healthcare benefits to retirees who have reached certain combinations of age and years of service as more fully described in Note 5.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - continued

Net Position

Net position in the financial statements reflects net investments in capital assets, and unrestricted amounts.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Board considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Definition of Operating Versus Non-Operating Revenues

Operating revenues are considered to be all revenues directly related to the provision of services. All other revenues are considered non-operating.

Note 2 – Deposits and Investments

The Board maintains cash balances, money market accounts and certificates of deposit at several financial institutions in Raleigh, North Carolina. Certificates of deposit have a book and market value of \$557,745 at June 30, 2018. Certificates of deposit have varying interest rates and staggered maturities over the next year.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits may not be returned to it. The Board does not have a formal deposit policy for custodial credit risk. As of June 30, 2018 there was custodial credit risk on the Board's bank deposits in the amount of \$597,742.

Note 3 – Operating Leases

The Board leases office space under a lease expiring in August, 2024. Future minimum lease commitments are as follows:

Year Ending	
<u>June 30,</u>	<u>Amount</u>
2019	\$ 62,552
2020	64,216
2021	66,143
2022	68,127
2023	70,171
Thereafter	<u>11,752</u>
	<u>\$342,961</u>

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 4 – Pension Plans

Defined Contribution Plan

The Board and its employees along with seven other licensing boards, are participants in the North Carolina Licensing Boards Retirement Plan, a 401(k) defined contributions plan covering eligible employees. The plan requires a mandatory employee contribution equal to 6% of each participant's compensation. In addition, the employer is required to make a contribution equal to 6% of each participant's compensation for the year. Employee contributions are fully vested at all times. Employees are eligible to participate in the retirement plan on the date of employment. Vesting of employer contributions begins at the completion of one year of service (20%) and increases an additional 20% per year until reaching 100% vesting in year five. Normal retirement age is deemed to be age 65. Benefits are distributed to participants pursuant to the election of the plan participant.

For the years ended June 30, 2018 and 2017 the Board contributed \$40,739 and \$48,629, respectively. There were no employer liabilities to the North Carolina Licensing Boards Retirement Plan at June 30, 2018 or 2017.

Note 5 – Postemployment Benefits Other Than Pensions

General Information about the OPEB Plan

Plan Description. The Board has a defined benefit healthcare plan in place for retirees who meet certain conditions. The plan provides lifetime healthcare insurance for eligible retirees through the Board's group health insurance plan which covers both active and retired employees. Employees retiring on or after age sixty and having at least ten, but less than twenty, years of Board service are eligible for health insurance provided by the Board by paying 50% of the health insurance premium. Employees retiring on or after age sixty and having completed twenty or more years of Board service are eligible for health insurance paid entirely by the Board. Employees retiring after completion of thirty years of service at any age are eligible for health insurance paid entirely by the Board. When a retiree becomes eligible for Medicare, the Board will pay the cost of supplemental insurance coverage based on the above criteria. Family members may be covered at the retiree's expense.

Funding Policy. The Board operates its healthcare plan on a "pay-as-you-go" basis. For the year ended June 30, 2018, the Board paid benefits of \$9,570 for healthcare coverage for retirees. In 2017, total retiree benefits paid were \$4,503. However, the Board has segregated funds in a specific money market account to be used to pay future

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5 - continued

post-employment benefits other than pensions. Balances in that account totaled \$313,208 and \$128,140 on June 30, 2018 and 2017, respectively.

Employees covered by benefit terms. At June 30, 2018 and 2017 the following number of employees were covered by the plan:

	June 30,	
	2018	2017
Retired Employees	3	2
Active Employees	8	8
	11	10

Total OPEB Liability

The Board’s OPEB liability of \$373,471 was measured as of June 30, 2018 and determined by the alternative measurement method as of that date.

Actuarial assumptions and other inputs. The total OPEB liability at June 30, 2018 was measured by the alternative measurement method using the following actuarial assumptions and other inputs applied to all periods included in the measurement unless otherwise specified:

Retirement age for active employees – The retirement age is assumed to be age 60 with the requisite years of service unless employment has already continued beyond age 60 or after 30 years of service is reached if not yet age 60.

Mortality – Life expectancies were based on mortality tables from the National Vital Statistics Reports, Volume 58, number 21 published June 28, 2010. The United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data maintained by the U.S. Office of Personnel Management for the employee group covered by the Federal Employees Retirement System were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. Rates ranged from 3.4% to 9.4% from 2010 to 2020 and beyond.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5 - continued

Health insurance premiums – 2018 health insurance premiums for active and retired employees were used as the basis for calculation of the present value of total benefits to be paid.

Discount Rate - Based on the historical and expected returns of the Board’s short-term investment portfolio, a discount rate of 3.0 percent was used. In addition, the unit credit cost method was used for actuarial calculations because payroll is not a factor in determining benefits. The unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at June 30, 2018, was twenty-two years.

Changes in Total OPEB Liability

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Beginning balance	\$376,309	\$341,536
Changes for the Year:		
Service cost	39,447	39,590
Interest	7,990	6,737
Difference in expected and actual experience	(40,704)	(7,050)
Benefit payments	<u>(9,570)</u>	<u>(4,503)</u>
Net changes	(2,837)	34,773
Ending balance	<u>\$373,742</u>	<u>\$376,309</u>

Sensitivity of the total OPEB liability to changes in the discount rate. 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 a discount rate that is 1-percentage-point lower (2.0 percent) or 1-percentage-point higher (4.0 percent) than the current discount rate:

	1% Decrease (2.0%)	Discount Rate (3.0%)	1% Increase (4.0%)
Total OPEB Liability	\$415,822	\$373,472	\$337,310

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5 - continued

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 healthcare cost trend rates that are 1-percentage-point lower (2.4 to 8.4) or 1-percentage-point higher (4.4 to 10.4):

	1% Decrease <u>(2.4% - 8.4%)</u>	Healthcare Cost Trend Rates <u>(3.4% - 9.4%)</u>	1% Increase <u>(4.4% - 10.4%)</u>
Total OPEB Liability	\$338,226	\$373,472	\$413,752

Note 6 – Net Position

The Board has adopted the following policies in order to assure that all expenses of the Board for the current fiscal year be fully provided for:

- a) In an effort to provide resources to replace existing fixed assets, the Board assigns funds equal to a calculated amount of the annual depreciation. This reserve is cumulative (currently \$308,018) and is reduced by the purchase of replacement assets. In response to GASB 51, agencies and component units of the State of North Carolina will follow new capitalization thresholds for intangible assets, including internally generated computer software, effective July 1, 2009. Because the threshold becomes \$1,000,000 in the future and major upgrades to software have been completed, it is highly unlikely that resources will be called upon to replace computer software that would amount to more than \$1,000,000 or to replace office upfitting for its existing facilities.
- b) Reserves of net position for prepaid expenses. At June 30, 2018, net position reserved for prepaid expenses consists principally of insurance and conference fees.
- c) During the fiscal year ended June 30, 1999, the Board approved establishing a reserve of \$2,000 per year for retiree health and hospitalization insurance. For June 30, 2012, the reserve was increased by \$4,000 to \$32,000. However, Government Accounting Standards Board (GASB) Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, has become effective. GASB Statement 75 requires that the annual required contribution, as actuarially calculated, be recorded in the statement of revenues, expenses and changes in net position and any corresponding other postemployment benefit (OPEB) liability be recognized on the statement of net position, minus any benefits paid out. Accordingly, the retiree health

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

insurance reserve does not measure the obligation for future benefits, but does recognize that future benefits must be provided.

Note 6 - continued

Unrestricted net position is summarized as follows:

	June 30,	
	2018	2017
Designated		
Replacement of capital assets	\$308,018	\$317,229
Prepaid expenses	32,754	31,647
Retiree insurance	32,000	32,000
	372,772	380,876
 Unrestricted	 183,041	 1,814
	\$555,813	\$382,690

Note 7 – Amount Due Engineering Foundation, Inc.

Chapter 87, Article 45 of the North Carolina General Statutes provides that the Board shall retain no more than 20% of the prior year’s gross receipts after providing for all expenses of the Board for the period. Excess funds shall be forwarded to the North Carolina Engineering Foundation, Inc. for the benefit of the Electrical Engineering Department of the Greater University of North Carolina.

The Board has obtained a legal interpretation of what the language in the statute means with regard to how the amount due the Engineering Foundation is to be calculated this year and in future years. The change in calculating the Amount Due Engineering Foundation, Inc., if any, is reported as a change in accounting estimate.

For June 30, 2018 the amount due to the Engineering Foundation, Inc. is calculated as follows:

Change in Net Position	\$ 183,046
Less:	
Gross Receipts	1,669,373
Percent to Retain	x 20%
	333,875
 Amount Due Engineering Foundation, Inc.	 \$ 0

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 7 - continued

For June 30, 2017 the amount calculated using the prior method of estimating the Amount Due Engineering Foundation, Inc. is as follows.

Enterprise fund assets	\$1,658,683
Less:	
Liabilities exclusive of amount due	
Engineering Foundation, Inc.	(852,994)
Amount designated for retiree health insurance	(128,140)
Amount expended for code book inventory	-
Amount designated for replacement of existing fixed assets	<u>(317,229)</u>
	360,320
Not more than 20% of annual total revenue	<u>343,342</u>
Amount due Engineering Foundation, Inc.	<u>\$ 16,978</u>

Note 8 – Capital Assets

Changes in capital assets for the year ended June 30, 2018 were as follows:

	ASSETS			
	June 30, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2018</u>
Furniture and equipment	\$ 875,419	\$ 19,074	\$ 545,099	\$ 349,394
Vehicles	<u>130,210</u>	<u>25,619</u>	<u>26,408</u>	<u>129,421</u>
	<u>\$1,005,629</u>	<u>\$ 44,693</u>	<u>\$ 571,417</u>	<u>\$ 478,815</u>
	RESERVES			
	June 30, <u>2017</u>	Depreciation <u>Expense</u>	<u>Retirements</u>	June 30, <u>2018</u>
Furniture and equipment	\$866,108	\$ 8,886	\$ 545,099	\$329,895
Vehicles	<u>73,282</u>	<u>25,884</u>	<u>26,408</u>	<u>72,758</u>
	<u>\$939,390</u>	<u>\$34,770</u>	<u>\$ 571,417</u>	<u>\$402,653</u>

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 9 – Accrued Vacation

Accrued vacation is summarized for June 30, 2018 as follows:

	<u>June 30,</u> <u>2017</u>	<u>Additions</u>	<u>Usage</u>	<u>June 30,</u> <u>2018</u>
Accrued vacation liability	\$61,359	\$33,850	\$36,142	\$59,067

The current portion of accrued vacation at June 30, 2018 is estimated at \$36,143.

Note 10 – Subsequent Events

Management has evaluated subsequent events through September 7, 2018, the date the financial statements were available to be issued.

Note 11 – Restatement of Net Position

In accordance with paragraph 246 of GASB No. 75, the board recorded the total OPEB liability as of the beginning of fiscal year 2017. The change reduced the beginning net position by \$116,982 and OPEB expense by \$7,050 in 2017.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGE IN THE BOARD'S OPEB LIABILITY
Last 2 Years Ended June 30,

	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	\$ 39,447	\$ 39,590
Interest	7,990	6,736
Difference in expected and actual experience	(40,704)	(7,050)
Benefit Payments	<u>(9,570)</u>	<u>(4,503)</u>
Net Change in OPEB Liability	(2,837)	34,773
Total OPEB Liability		
Beginning	<u>376,309</u>	<u>341,536</u>
Ending	<u>\$ 373,472</u>	<u>\$ 376,309</u>

Notes to schedule:

No OPEB liability is presented for years earlier than 2017 because the liability was not determined in accordance with GASB 75.

The OPEB liability was calculated using the alternative measurement method for employers plans that cover less than 100 active and retired employees.

No OPEB liability as a percentage of covered employer payroll is presented because payroll is not a factor in measuring the OPEB liability.

No net OPEB liability is presented because the Board's OPEB plan is not administered through a trust as noted in GASB No. 75 paragraph 4 in which:

- a) Contributions from the employer to the plan and earnings on those contributions are irrevocable
- b) Plan assets are dedicated to providing OPEB to plan members
- c) OPEB plan assets are legally protected from the employer's creditors and the plan administrator, as well as from creditors of plan members.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

State Board of Examiners of Electrical Contractors
Raleigh, North Carolina

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Board of Examiners of Electrical Contractors (Board) as of and for the years ended June 30, 2018 and June 30, 2017 and the related notes to the financial statements and have issued our report thereon dated September 7, 2018 and August 17, 2017.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did

identify a deficiency in internal control described in a separate letter on internal control deficiencies, that we consider be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

GARRETT, DODD & ASSOCIATES, LTD.

Garrett, Dodd & Associates, Ltd.

Durham, North Carolina
September 7, 2018