

NORTH CAROLINA AUCTIONEER LICENSING BOARD

**Financial Statements and
Supplemental Schedules for the
Year Ended June 30, 2016 and
Independent Auditor's Report**

NORTH CAROLINA AUCTIONEER LICENSING BOARD

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Supplemental Schedules for the
Year Ended June 30, 2016 and
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BOARD MEMBERS (2016)

Daniel H. Devane, Chairperson

Gary Boyd, Vice Chairperson

Lisa L. Brown

Moses Gallion

Susan Rogers Holder

EXECUTIVE OFFICER

Charles F. Diehl, Executive Director

LEGAL COUNSEL

Garris Neil Yarborough, Attorney At-Law

Yarborough, Winters & Neville, P.A.

NORTH CAROLINA AUCTIONEER LICENSING BOARD

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-2
INDEPENDENT AUDITOR'S REPORT	3-4
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016	
Statements of Net Position	5-6
Statements of Revenues, Expenses and Changes in Net Position	7-8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-22
REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016	
Schedule of the Proportionate Net Pension Liability	23
Schedule of Board Contributions	24
Notes to Schedule of Board Contributions	25

NORTH CAROLINA AUCTIONEER LICENSING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the year ended June 30, 2016. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

During 2016, the Board's net position for its Operating Fund increased by \$27,277, or 3.3%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2016, the Board's net position for its Recovery Fund increased by \$2,878, or .8%, due primarily to a consistent recurrence of revenues exceeding expenses.

During 2016, the Board's operating revenues for its Operating Fund decreased by \$15,237, or 3.9%, due primarily to a decrease in auctioneer licenses fees. During 2016, the Board's operating revenues for its Recovery Fund decreased by \$500, or 7.6%, due to the fact that the recovery fund collected less recovery fund fees in the current year.

During 2016, the Board's non-operating revenues (net of non-operating expense) for its Operating Fund increased by \$2,516, or 23.4%, due primarily to an increase in interest income during the current year. During 2016, the Board's non-operating revenues for its Recovery Fund increased by \$922, or 51.1%, due primarily to an increase in interest earnings rates.

During 2016, the Board's operating expenses for its Operating Fund increased by \$32,619, or 10.5%, due primarily to an increase in salaries and wages, and computer support services. During 2016, the Board's operating expenses for its Recovery Fund increased by \$5,950, or 100.0%, due to the fact that there were recovery fund claims awarded and paid during the year ended June 30, 2016, whereas none were awarded and paid during the year ended June 30, 2015.

Overview of the Financial Statements

This financial report consists of two primary sections: Management's Discussion and Analysis and the Financial Statements. The Board has also presented other supplementary information required by GASB 68, as amended by GASB 71, which reports the Board's progress in funding pension benefits to its employees. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

Basic Financial Statements

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board. The Statements of Net Position present the current and long-term portions of assets, deferred outflows of resources, liabilities, and deferred inflows of resources separately. The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's assets changed as a result of its operations. The Statements of Cash Flows present information on how the Board's cash changed as a result of its financial activities.

NORTH CAROLINA AUCTIONEER LICENSING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following presents condensed financial information on the operations of the Board:

	Current Year as of and for the year ended June 30, 2016 Operating Fund	Current Year as of and for the year ended June 30, 2016 Recovery Fund	Current Year as of and for the year ended June 30, 2015 Operating Fund	Current Year as of and for the year ended June 30, 2015 Recovery Fund
Current assets	\$ 758,996	\$ 383,012	\$ 702,007	\$ 380,134
Capital assets	662,263		673,213	
Total assets	\$ 1,421,259	\$ 383,012	\$ 1,375,220	\$ 380,134
Deferred outflows for pensions	\$ 10,539	\$	\$ 9,524	\$
Total deferred outflows of resources	\$ 10,539	\$ 0	\$ 9,524	\$ 0
Current liabilities	\$ 327,489	\$	\$ 267,912	\$
Non-current liabilities	245,360		262,388	
Total liabilities	\$ 572,849	\$ 0	\$ 530,300	\$ 0
Deferred inflows for pensions	\$ 6,446	\$	\$ 29,218	\$
Total deferred inflows of resources	\$ 6,446	\$ 0	\$ 29,218	\$ 0
Net investment in capital assets	\$ 416,722	\$	\$ 391,287	\$
Restricted - expendable		183,012		180,134
Restricted - nonexpendable		200,000		200,000
Unrestricted	435,781		433,939	
Total net position	\$ 852,503	\$ 383,012	\$ 825,226	\$ 380,134
Operating revenues	\$ 377,987	\$ 6,100	\$ 393,224	\$ 6,600
Operating expenses	(342,494)	(5,950)	(309,875)	
Operating income	\$ 35,493	\$ 150	\$ 83,349	\$ 6,600
Non-operating revenues	(8,216)	2,728	(10,732)	1,806
Change in net position	\$ 27,277	\$ 2,878	\$ 72,617	\$ 8,406

Events Affecting Future Operations

The Board has no significant events affecting future operations which are reportable pursuant to GASB 34.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina Auctioneer Licensing Board, 108 Ber Creek Drive, Fuquay-Varina, North Carolina 27526.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
North Carolina Auctioneer Licensing Board
Fuquay-Varina, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Auctioneer Licensing Board (the "Board"), an independent state agency which is a nonmajor enterprise fund of the primary government of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise the Board's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Auctioneer Licensing Board as of June 30, 2016, and the results of its operations, changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Proportionate Net Pension Liability and the Schedule of Board Contributions (including Notes to the Schedule of Board Contributions) 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 historic 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 supplementary information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance thereon.



Shelton L. Hawley, C.P.A., P.A.

Angier, NC

September 6, 2016

NORTH CAROLINA AUCTIONEER LICENSING BOARD
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016

	June 30, 2016	
	Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund
ASSETS		
Current assets:		
Cash in State Treasurer (Note 2)	\$ 758,428	\$ 382,758
Accrued interest receivable	432	254
Prepaid expense -office equipment lease	136	
Total current assets	<u>758,996</u>	<u>383,012</u>
Capital assets (Note 1)		
Land	135,666	
Building and improvements	521,470	
Furniture and office equipment	5,127	
Total capital assets - net of depreciation	<u>662,263</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 1,421,259</u>	<u>\$ 383,012</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pensions (Note 7)	10,539	
Total deferred outflows of resources	<u>\$ 10,539</u>	<u>\$ 0</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 12,252	\$
Due to other state agencies	3,607	
Note payable - current portion (Note 5)	38,092	
Accrued vacation - current portion (Notes 1 and 5)	3,674	
Unearned revenue (Note 3)	269,864	
Total current liabilities	<u>327,489</u>	<u>0</u>
Non-current liabilities:		
Note payable - long term portion (Note 5)	207,449	
Accrued vacation - long-term portion (Notes 1 and 5)	14,694	
Net pension liability (Notes 1, 5 and 7)	23,217	
Total non-current liabilities	<u>245,360</u>	<u>0</u>
TOTAL LIABILITIES	<u>\$ 572,849</u>	<u>\$ 0</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows for pensions (Note 7)	6,446	
Total deferred inflows of resources	<u>\$ 6,446</u>	<u>\$ 0</u>

See notes to financial statements.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016

	<u>June 30, 2016</u>	
	<u>Proprietary -</u>	
	<u>Enterprise Funds</u>	
	<u>Operating</u>	<u>Recovery</u>
	<u>Fund</u>	<u>Fund</u>
NET POSITION (NOTE 4)		
Net investment in capital assets	416,722	
Restricted net position - expendable		183,012
Restricted net position - nonexpendable		200,000
Unrestricted net position	<u>435,781</u>	
TOTAL NET POSITION	<u>\$ 852,503</u>	<u>\$ 383,012</u>

See notes to financial statements.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

	Year Ended June 30, 2016	
	Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund
OPERATING REVENUES:		
Auctioneer licenses	\$ 277,125	\$
Apprentice auctioneer licenses	1,900	
Business licenses	63,000	
Examination fees	4,100	
Late fees and civil penalties (net of civil penalty transfers)	25,450	
Application fees (net of SBI fees)	5,700	
Recovery fund fees (net of civil penalty transfers)		6,100
Other income	712	
Total operating revenues	\$ 377,987	\$ 6,100
OPERATING EXPENSES:		
Salaries (including accumulated leave)	\$ 112,052	\$
Temporary wages - employees	20,205	
Social security/medicare contributions	10,077	
Retirement system contributions (Note 7)	12,290	
Employee insurance	9,149	
Staff expenses - travel and other	3,576	
Contracted temporary wages	16,433	
Computer support services	25,152	
Other contracted services - building maintenance costs	7,066	
Board members expenses - travel and other	7,144	
Board members expenses - per diem	9,100	
Telephone and internet	3,526	
Utilities	4,080	
Depreciation	13,443	
Machine rental and maintenance (Note 6)	4,826	
Office supplies and expenses	5,304	

See notes to financial statements

NORTH CAROLINA AUCTIONEER LICENSING BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

	Year Ended June 30, 2016	
	Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund
OPERATING EXPENSES (CONTINUED):		
Postage and delivery	2,286	
Insurance	1,209	
Dues and subscriptions	1,262	
Legal, auditing, accounting and other professional fees	45,405	
Continuing education costs for licensees	23,561	
Printing	4,138	
Recovery fund claims paid		5,950
Miscellaneous expenses	1,210	
Total operating expenses	<u>\$ 342,494</u>	<u>\$ 5,950</u>
Operating income	35,493	150
NON-OPERATING INCOME (EXPENSES):		
Interest income	4,730	2,728
Gain (loss) on disposition of capital assets	(765)	
Interest expense on loan	(12,181)	
Total net non-operating revenues	<u>\$ (8,216)</u>	<u>\$ 2,728</u>
Change in net position	\$ 27,277	\$ 2,878
Net position - beginning of year	<u>825,226</u>	<u>380,134</u>
Net position - end of year	<u><u>\$ 852,503</u></u>	<u><u>\$ 383,012</u></u>

See notes to financial statements.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

	Year Ended June 30, 2016	
	Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund
Cash flows from operating activities:		
Cash received from fees	\$ 433,239	\$ 6,100
Cash received from other operating revenues	712	
Cash payments to employees for services (including benefits)	(171,227)	
Cash payments for operating expenses	(158,648)	(5,950)
Net cash provided (used) by operating activities	\$ 104,076	\$ 150
Cash flows from capital and related financing activities:		
Proceeds (payments) from (on) note payable	\$ (36,385)	\$
Interest paid on loan	(12,181)	
Acquisition of capital assets	(3,258)	
Net cash used in capital and related financing activities:	\$ (51,824)	\$ 0
Cash flows from investing activities:		
Interest on investments	\$ 4,562	\$ 2,644
Net cash provided (used) by investing activities	\$ 4,562	\$ 2,644
Net increase in cash	\$ 56,814	\$ 2,794
Cash - beginning of year	701,614	379,964
Cash - end of year	\$ 758,428	\$ 382,758

See notes to financial statements.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

	Year Ended June 30, 2016	
	Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 35,493	\$ 150
Adjustments to reconcile operating income		
To net cash provided by operating activities		
Depreciation	\$ 13,443	\$
Changes in assets, liabilities, and deferred outflows:		
Prepaid expense	(7)	
Accounts payable	6,637	
Unearned revenue	55,964	
Deferred inflows (outflows) of resources for pensions	(23,787)	
Other accrued liabilities (including net pension liability)	16,333	
Total adjustments	\$ 68,583	\$ 0
Net cash provided (used) by operating activities	<u>\$ 104,076</u>	<u>\$ 150</u>
Supplemental disclosure(s) of noncash investing, capital, and financing activities:		
Capital asset write-offs	\$ (765)	\$ 0
Supplemental Disclosure of Cash Flow Information		
Interest paid on note payable	<u>\$ 12,181</u>	<u>\$ 0</u>

See notes to financial statements.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 1 - Nature of Activities and Significant Accounting Policies

Description of Organization

The North Carolina Auctioneer Licensing Board (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 85B of the North Carolina General Statutes. The Board is composed of five members who are appointed by the Governor of the State of North Carolina. 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).

The Board is established to maintain minimum standards for services provided by auctioneers.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

On July 1, 1973, pursuant to Section 85B of the General Statutes of the State of North Carolina the Board was created. The Board began operations through its Operating Fund in September 1973. The revenues and expenditures for the Operating Fund are shown as a proprietary (enterprise) fund.

On July 1, 1983, pursuant to North Carolina General Statute 85B-4.1, the Auctioneer Recovery Fund (the "Recovery Fund") of the North Carolina Auctioneer Licensing Board was established. The North Carolina Auctioneer Licensing Board is responsible for the administration and maintenance of the Recovery Fund pursuant to the provisions thereof. The Board, at its discretion, may use contents of the Recovery Fund in excess of \$100,000 (\$200,000 effective June, 1999) for certain purposes specified in the statute. The Board transferred no monies from the Recovery Fund to the Operating Fund for the year ended June 30, 2016. The Board has the authority to assess each licensee at renewal in an amount up to fifty (\$50) for the purpose of replenishing the Fund. The Board also monitors the Fund to satisfy judgments by aggrieved persons who have suffered a direct monetary loss by reason of certain acts committed by any person licensed under General Statute Chapter 85B. The revenues and expenditures for the Recovery Fund are shown as a proprietary (enterprise) fund. The Recovery Fund is a restricted fund with expendable and nonexpendable components.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

All activities of the Board are accounted for within two proprietary (enterprise) funds as described in the foregoing section above. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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 Accounting

In accordance with *Statement of Governmental Accounting Standards 34*, the Board herewith presents Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The Statements of Revenues, Expenses, and Changes in Net Position demonstrate the degree to which the direct expenses of the Board are offset by examination and license fees.

The financial statements report all activities of the North Carolina Auctioneer Licensing Board using the economic resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable, regardless of the timing of cash flows.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities; and are classified as non-operating in the financial statements.

Cash in State Treasurer

This classification consists of funds deposited by the Board with the cash accounts of the North Carolina State Treasurer. Because these funds are immediately available for expenditure, they are considered a cash equivalent.

Fair Value of Financial Instruments

The carrying amounts of the Board's financial instruments approximate their fair value.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Prepaid Expenses

This classification includes expenses which were prepaid at year end for an office equipment lease.

Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include notes payable, net pension liability, and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the Board's proportionate share of the collective net pension liability reported in the 2015 State of North Carolina's Comprehensive Annual Financial Report (CAFR). This liability represents the Board's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Notes 5 and 7 for further information regarding the Board's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

Vacation and Sick Leave

Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. On December 31st, accrued vacation in excess of the limits are transferred and added to sick leave balances. Accumulated earned vacation payable at June 30, 2016 consisted of the following:

	June 30, 2016	
Current portion	\$	3,674
Long-term portion		14,694
Total	\$	18,368

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Since the Board has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made. The Board has a contingent liability for sick leave in the amount of \$40,789 at June 30, 2016.

Capital Assets

Capital assets are stated at cost and are being depreciated over their useful lives on a straight-line basis. The Board capitalizes assets that have a value or cost of \$500 or greater at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets, generally estimated as follows: buildings, 50 years and office furniture and equipment, 5 to 7 years. Summaries follow:

	Cost			Accumulated		Net
	06-30-15	Acquisitions	Disposals	06-30-16	Depreciation	Amount
Land	\$ 135,666	\$ -	\$ -	\$ 135,666	\$ -	\$ 135,666
Building	605,695	-	-	605,695	84,225	521,470
Furniture/Equipment	82,662	3,258	38,381	47,539	42,412	5,127
	\$ 824,023	\$ 3,258	\$ 38,381	\$ 788,900	\$ 126,637	\$ 662,263

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in earnings for the period. Depreciation expense was \$13,443 for the fiscal year ended June 30, 2016.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Income Taxes

The Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is exempt from federal and state income taxes.

Use of Estimates

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

Note 2 - Deposits

Cash in State Treasurer

All of the Board's deposits are either insured, or are collateralized under the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's escrow agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held in the Board's name. The amount of pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. Custodial credit risk is the risk that in the event of a bank failure, the Board's funds may not be returned to it. The Board does not have a formal policy regarding custodial credit risk for its deposits.

Deposit and investments risks associated with the State Treasurer's Deposits and Investments are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of the financial report is available by accessing the North Carolina Office of the State Controller's internet home page, www.osc.state.nc.us, and clicking on "Financial Reports", or calling the State Controller's Financial Reporting Section at (919) 707-0500.

At June 30, 2016, the Board's deposits with the State Treasurer had a carrying value and bank balance of \$758,428 for the Operating Fund, which was covered by collateral held under the Pooling Method, and a carrying value and a bank balance of \$382,758 for the Recovery Fund, which was covered by collateral held under the Pooling Method.

Note 3 - Unearned Revenue

The Board's fees are assessed and collected on a fiscal year basis, which corresponds with the Board's accounting period. Licenses are renewed for a period of one fiscal year. License renewal fees received in the latter part of the fiscal year are unearned and recognized as revenue over the one year period to which they relate.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 4 - Net Position

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any loan proceeds that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted net position - expendable and nonexpendable - This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The Recovery Fund is a restricted fund with expendable and nonexpendable components.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of *restricted or net investment in capital assets*.

Note 5 - Long-Term Liabilities

Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is presented as follows:

	Balance 06-30-15	Additions	Reductions	Balance 06-30-16	Current Portion
Note Payable	\$ 281,926	\$ -	\$ (36,385)	\$ 245,541	\$ 38,092
Net Pension Liability	8,090	15,127	-	23,217	-
Compensated Absences	10,304	17,159	(9,095)	18,368	3,674
Total Long-Term Liabilities	<u>\$ 300,320</u>	<u>\$ 32,286</u>	<u>\$ (45,480)</u>	<u>\$ 287,126</u>	<u>\$ 41,766</u>

Additional information regarding the net pension liability is included in Notes 1 and 7.

Note Payable

The Board obtained a construction loan in May 2008 in the amount of \$595,000 to fund the construction of an office building on land which it had previously purchased (without incurring debt). The initial note was in the amount of \$595,000. The initial loan proceeds were deposited to a construction loan bank account with the lending financial institution in the name of the Board, earning interest at the lending institution's public fund money market rate. Two payments, totaling \$27,573, were made in November 2008 and May 2009, then upon completion of the building, the remaining funds on deposit in the construction account were applied to the note payable balance. Monthly payments in the amount of \$4,047 began in November 2009 and were scheduled to continue to maturity in May 2028. A lump sum payment of \$100,000 was made in January 2014, which altered the amortization and maturity date. The note is now scheduled to mature on April 29, 2022. The loan is secured by the land and building. The note payable carries a fixed interest rate of 4.59%.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 5 - Long-Term Liabilities (Continued)

The estimated maturities of debt for each of the years subsequent to June 30, 2016, are as follows:

Years Ended June 30,	Principal	Interest
2017	\$ 38,092	\$ 10,475
2018	39,878	8,689
2019	41,747	6,820
2020	43,704	4,863
2021	45,753	2,814
2022 and beyond	36,367	711
Total	<u>\$ 245,541</u>	<u>\$ 34,372</u>

Note 6 - Operating Leases

The Board leases office equipment under operating leases. Total rent expense charged to operations under lease agreements was \$4,563 in 2016.

Rental commitments under noncancellable operating leases at June 30, 2016 are as follows:

Years Ended June 30,	
2017	\$ 4,496
2018	4,496
2019	3,612
2020	3,318
Total	<u>\$ 15,922</u>

Note 7 - Pension Plans

In prior years and during a portion of the year ended June 30, 2001, the Board did not participate in the Teachers' and State Employees' Retirement System of North Carolina. The Board was ineligible to participate in the State Retirement System on behalf of employees and instead purchased an annual premium annuity contract on behalf of its employees. On October 1, 2000, pursuant to General Statute 135-1(b), the Board elected back into the State Retirement System on behalf of its employees and terminated the annual premium annuity contract. Additionally, participants in the Teachers' and State Employees' Retirement System participate in the Supplemental Retirement Income Plan of North Carolina in accordance with Internal Revenue Code Section 401(k). The Board assumes no liability for retiree benefits provided by these retirement plans other than their required contribution.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 7 - Pension Plans (Continued)

Defined Benefit Plan - Teachers' and State Employees' Retirement System of North Carolina

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Board's contractually-required contribution rate for the year ended June 30, 2016 was 9.14% for the Retirement System Pension Fund (15.32% combined rate for the Retirement System Pension Fund, the Death Benefit Trust Fund, the Retiree Health Benefit Fund, and the Disability Income Plan) of covered payroll. The Board's contributions to the retirement system (including \$10,110 to the pension plan) were \$16,945, and employee contributions were \$6,723 for the year ended June 30, 2016. The Board's contributions to the retirement system (including \$8,941 to the pension plan) were \$14,864, and employee contributions were \$5,863 for the year ended June 30, 2015. The Board's contributions to the retirement system were \$16,217, and employee contributions were \$6,312 for the year ended June 30, 2014. (The Board's payroll for employees covered by the System for the year ended June 30, 2016 was \$112,052; the Board's total payroll was \$132,258. The Board's payroll for employees covered by the System for the year ended June 30, 2015 was \$97,716; the Board's total payroll was \$125,495. The Board's payroll for employees covered by the System for the year ended June 30, 2014 was \$109,983; the Board's total payroll was \$136,917.)

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 7 - Pension Plans (Continued)

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 Comprehensive Annual Financial Report.

Net Pension Liability: At June 30, 2016, the Board reported a liability of \$23,217 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Board's proportion of the net pension liability was based on the present value of future salaries for the Board relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the Board's proportion was .00063%, which was a decrease of 8.7% from its proportion measured as of June 30, 2014 of .00069%.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 7 - Pension Plans (Continued)

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 69,876	\$ 23,217	\$ (16,379)

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 7 - Pension Plans (Continued)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the Board recognized pension expense of \$2,058. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Amount to be Recognized in Pension Expense</u>
Difference between actual and expected experience	\$ -	\$ 2,640	\$ (2,640)
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments (see note below)	-	2,516	(2,516)
Change in proportion and differences between agency's contributions and proportionate share of contributions	429	1,290	(861)
Contributions subsequent to the measurement date	10,110	-	-
Total	<u>\$ 10,539</u>	<u>\$ 6,446</u>	<u>\$ (6,017)</u>

The amount of the employer's balance of deferred outflows of resources that will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016 is \$10,110. The net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources that will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	\$ (3,227)
2018	(3,227)
2019	(3,164)
2020	3,601
2021	-
Total	<u>\$ (6,017)</u>

Note: negative amounts indicate amortization of pension deferrals that will decrease pension expense.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 7 - Pension Plans (Continued)

IRC 401(k) Plan

Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina in accordance with Internal Revenue Code Section 401(k). Certain members of the Teachers' and State Employees' Retirement System of North Carolina are eligible for enrollment in this plan. Members of this plan may receive their benefits upon retirement, disability, termination, hardship, or death. Administration costs are paid from the plan. The Board elected into the plan on October 1, 2000 at the time it elected back into the State Retirement System. One employees was covered under the plan, one clerical staff employee. Only the Board contributes to the plan, and only the Board has the authority to authorize and amend the plan (pursuant to the provisions of the Supplemental Retirement Income Plan of North Carolina). There are no forfeitures inuring to other employees under this type plan. The Board's contribution to the plan was \$3,397 for the year ended June 30, 2016, \$6,956 for the year ended June 30, 2015, and \$7,635 for the year ended June 30, 2014. There were no voluntary contributions to the plan by employees for the years ended June 30, 2016, 2015 and 2014.

Note 8 - Postemployment Benefits Other Than Pensions

The Board participates in state administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teacher's and State Employees' Retirement System. These benefits were established by Chapter 135 of the North Carolina General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefits for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Board's contribution for postemployment health care benefits is included in its retirement system contribution (5.6 % of the 15.32% total contribution rate) to the Teachers' and State Employees' Retirement System.

The Board participates in the Disability Income Plan of North Carolina (DIPNC) established by Chapter 135 of the North Carolina General Statutes. DIPNC provides short-term and long-term disability to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advanced on an actuarially determined basis using the one-year term cost method. The Board's contribution for postemployment disability benefits is included in its retirement system contribution (.41 % of the 15.32% total contribution rate) to the Teachers' and State Employees' Retirement System.

The Board participates in the Death Benefit Trust Fund of North Carolina. The Board's contribution for the Death Benefit Trust Fund is included in its retirement system contribution (.16% of the 15.32% total contribution rate) to the Teachers' and State Employees' Retirement System.

The Board assumes no liability for retiree health care or disability benefits or death benefits provided by these programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report.

Note 9 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled by participation in state-administered risk programs and self retention of certain risks. Additionally, the Board protects itself from exposure to potential loss through the purchase of commercial insurance coverage.

NORTH CAROLINA AUCTIONEER LICENSING BOARD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 10 - Contingencies

Disciplinary Hearings

The Board is involved in a number of disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the year under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the year herein ended.

Recovery Fund Claims

The Recovery Fund of the North Carolina Auctioneer Licensing Board is established to provide relief for aggrieved persons who have suffered monetary loss as a direct result of the conversion of funds or property or other fraudulent acts or conduct by a licensed auctioneer, apprentice auctioneer, or auction firm, but subject to the limitations of North Carolina General Statute 85B-4. There were no known pending claims or awarded but unpaid/non-accrued claims payable at June 30, 2016. Accordingly, in the opinion of management of the Board, the resulting liabilities of such claims do not materially affect the Board's operations, changes in financial position, or cash flows for the year herein ended.

Note 11- Subsequent Events

Subsequent events have been evaluated through September 6, 2016, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 12 - North Carolina Legislative Statutory Disclosure Requirement Concerning Audit Fees

This audit required 101 audit hours at a cost of \$8,925.

**NORTH CAROLINA AUCTIONEER LICENSING BOARD
SCHEDULE OF THE PROPORTIONATE NET PENSION LIABILITY
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
(1) Proportionate share percentage of collective net pension liability	.00063%	.00069%	.00070%
(2) Proportionate Share of TSERS collective net pension liability	\$ 23,217	\$ 8,090	\$ 42,497
(3) Covered-employee payroll	\$ 97,716	\$ 109,983	\$ 108,388
(4) Net pension liability as a percentage of covered-employee payroll	23.76%	7.36%	39.21%
(5) Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.24%	90.60%

**NORTH CAROLINA AUCTIONEER LICENSING BOARD
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
(1) Contractually required contribution	\$ 10,110	\$ 8,941	\$ 9,558	\$ 9,029	\$ 7,498
(2) Contributions in relation to the contractually determined contribution	10,110	8,941	9,558	9,029	7,498
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 112,052	\$ 97,716	\$ 109,983	\$ 108,388	\$ 100,777
(5) Contributions as a percentage of covered-employee payroll	9.02%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
(1) Contractually required contribution	\$ 3,781	\$ 3,717	\$ 4,464	\$ 4,353	\$ 3,751
(2) Contributions in relation to the actuarially determined contribution	3,781	3,717	4,464	4,353	3,751
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 105,900	\$ 104,125	\$ 132,858	\$ 142,731	\$ 141,016
(5) Contributions as a percentage of covered-employee payroll	3.57%	3.57%	3.36%	3.05%	2.66%

**NORTH CAROLINA AUCTIONEER LICENSING BOARD
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF BOARD CONTRIBUTIONS
 TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS**

Changes of Benefit Terms:

Cost of Living Increase

<u>2016</u>	<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
N/A	1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina Comprehensive Annual Financial Report, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.