

NC BOARD OF ARCHITECTURE

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013



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NC BOARD OF ARCHITECTURE
Board Members

BOARD MEMBERS (2014)

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Chris E. Brasier, Vice President

Paul D. Boney, Secretary

Julie McLaurin, Treasurer

Steven M. McClure

John Tabor

John Monteith

EXECUTIVE DIRECTOR

Cathe M. Evans

ATTORNEY

M. Jack Nichols

NC BOARD OF ARCHITECTURE

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NC BOARD OF ARCHITECTURE
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The following is a discussion and analysis of the NC Board of Architecture's (the "Board") financial performance for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

The operating revenues of the Board decreased by \$12,547 due primarily to a decrease in late fees collected for corporate renewals along with a decrease in reciprocity fees. The operating expenses of the Board increased by \$6,082, due primarily to increases in salaries and employee benefit costs and computer services. Non-operating revenues increased by \$13,364 primarily due to lower unrealized losses on investments.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of two components: (1) financial statements, and (2) notes to financial statements. This report also contains required supplementary information in addition to the basic 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.

The Statements of Net Position (page 5) present assets and liabilities separately.

The Statements of Revenues, Expenses and Changes in Net Position (page 6) present information on how the Board's assets changed as a result of the years' operations.

The Statements of Cash Flows (page 7) present information on how the Board's cash changed as a result of the years' activity.

NC BOARD OF ARCHITECTURE
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

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

	As of and for the fiscal year ended June 30, 2014	As of and for the fiscal year ended June 30, 2013	As of and for the fiscal year ended June 30, 2012
Current assets	\$ 1,788,849	\$ 1,660,626	\$ 1,551,039
Capital assets, net of depreciation	7,110	12,449	25,303
Total assets	<u>1,795,959</u>	<u>1,673,075</u>	<u>1,576,342</u>
Current liabilities	338,994	299,240	287,436
Non-current liability	21,266	16,200	14,600
Total liabilities	<u>360,260</u>	<u>315,440</u>	<u>302,036</u>
Invested in capital assets	7,110	12,449	25,303
Unrestricted	1,428,589	1,345,186	1,249,003
Total net position	<u>\$ 1,435,699</u>	<u>\$ 1,357,635</u>	<u>\$ 1,274,306</u>
Operating revenues	\$ 531,949	\$ 544,496	\$ 534,160
Operating expenses	468,215	462,133	456,200
Operating income	63,734	82,363	77,960
Non-operating revenues	14,330	966	16,186
Changes in net position	<u>\$ 78,064</u>	<u>\$ 83,329</u>	<u>\$ 94,146</u>

Events Affecting Future Operations

The Board anticipates no events that will significantly change its net position or operations in the near future.

In order to develop and maintain its information technology and develop programs that will enhance the Board's ability to carry out its statutory charges, a fee ceiling increase should be considered.

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 and expends. If you have any questions about this report or need additional information, contact: NC Board of Architecture, 127 W. Hargett Street, Suite 304, Raleigh, NC 27601.

Independent Auditor's Report

Board of Directors
NC Board of Architecture
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the NC Board of Architecture (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the basic 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 Board'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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the NC Board of Architecture as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements presented are only for the NC Board of Architecture; and do not purport to, and do not present fairly the financial position of the State of North Carolina as of June 30, 2014 and 2013, the changes in its financial position or its cash flows for the years then ended in conformity 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

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

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
September 29, 2014

NC BOARD OF ARCHITECTURE
Statements of Net Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS:		
Current assets:		
Cash	\$ 750,129	\$ 634,832
Investments	1,038,720	1,024,623
Prepaid expenses	-	1,171
Total current assets	<u>1,788,849</u>	<u>1,660,626</u>
Capital assets:		
Furniture and equipment, net of depreciation	<u>7,110</u>	<u>12,449</u>
Total assets	<u>1,795,959</u>	<u>1,673,075</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	20,894	17,340
Due to the State Treasurer	24,650	2,500
Unearned revenues	293,450	279,400
Total current liabilities	<u>338,994</u>	<u>299,240</u>
Noncurrent liability:		
Lease obligation	4,451	-
Accrued vacation pay	16,815	16,200
Total noncurrent liabilities	<u>21,266</u>	<u>16,200</u>
Total liabilities	<u>360,260</u>	<u>315,440</u>
NET POSITION:		
Invested in capital assets	7,110	12,449
Unrestricted	1,428,589	1,345,186
Total net position	<u>\$ 1,435,699</u>	<u>\$ 1,357,635</u>

NC BOARD OF ARCHITECTURE
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Individual renewals	\$ 269,725	\$ 268,750
Corporate renewals	142,550	143,800
Reciprocity	32,700	38,300
Individual reinstatement fees	11,500	14,850
Individual late fees	42,775	41,000
New firm registrations	10,950	12,225
Firm late fees	11,150	18,450
Application fees	5,300	3,650
Certification fees	3,000	2,250
Miscellaneous	2,299	1,221
Total operating revenues	531,949	544,496
Operating expenses:		
Salaries and wages	178,034	169,218
Employee benefits	30,116	24,376
Payroll taxes	13,389	12,685
Legal fees	48,086	48,000
Equipment- maintenance and rental	3,980	4,263
Travel and subsistence	21,299	25,504
Rent	53,342	52,031
Board member per diem	10,311	10,100
Contractual services	629	1,802
Advertising	455	1,667
Postage and supplies	3,391	5,316
Registration and dues	12,394	14,878
Printing	539	501
Audit	6,500	6,200
Payroll service fees	3,033	2,508
Insurance	5,611	5,231
Telephone	3,180	3,789
Computer services	55,125	44,244
Miscellaneous	11,398	12,516
Depreciation	7,403	17,304
Total operating expenses	468,215	462,133
Operating income	63,734	82,363
Non-operating revenues (expenses):		
Interest and dividend income	19,916	17,697
Unrealized loss on investments	(5,586)	(16,731)
Total non-operating revenues	14,330	966
Changes in net position	78,064	83,329
Net position - beginning of year	1,357,635	1,274,306
Net position - end of year	\$ 1,435,699	\$ 1,357,635

See Notes to Financial Statements

NC BOARD OF ARCHITECTURE
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from fees	\$ 545,999	\$ 557,946
Cash payments for operating expenses	(251,452)	(273,046)
Cash payments to employees for services	(177,419)	(167,618)
Net cash provided by operating activities	<u>117,128</u>	<u>117,282</u>
Cash flows from investing activities:		
Investment income	19,916	17,697
Purchase of investments	(19,684)	(216,623)
Net cash provided by (used in) investing activities	<u>232</u>	<u>(198,926)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,063)	(4,450)
Net cash used in capital and related financing activities	<u>(2,063)</u>	<u>(4,450)</u>
Net increase (decrease) in cash	115,297	(86,094)
Cash - beginning of year	634,832	720,926
Cash - end of year	<u>\$ 750,129</u>	<u>\$ 634,832</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 63,734	\$ 82,363
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,403	17,304
Changes in assets and liabilities:		
Prepaid expenses	1,171	4,211
Accounts payable	3,554	6,604
Due to the State Treasurer	22,150	(8,250)
Unearned revenues	14,050	13,450
Lease obligation	4,451	-
Accrued vacation pay	615	1,600
Net cash provided by operating activities	<u>\$ 117,128</u>	<u>\$ 117,282</u>
Supplemental disclosures of noncash investing, capital, and financing activities:		
Capital asset write-offs	<u>\$ -</u>	<u>\$ 18,079</u>

NC BOARD OF ARCHITECTURE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The NC Board of Architecture (the "Board") is an independent State agency. It is an occupational licensing board authorized by Chapter 93E of the *North Carolina General Statutes*. The Board was established under Chapter 83A of the *North Carolina General Statutes* to maintain minimum standards for services provided by architects. The Board formally consists of seven members appointed by the Governor. The Board's operations are funded primarily through license renewal fees.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board ("GASB").

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

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 only the 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 or changes in the State's financial position and cash flows.

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows. The Board classifies its revenues and expenses as operating and non-operating in the accompanying statements of revenues, expenses and changes in net position. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of license renewal fees. Non-operating revenues and expenses include activities that have characteristics of non-exchange transactions and consist primarily of investing type activities.

NC BOARD OF ARCHITECTURE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

For purposes of the statements of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash.

Investments

The Board reports investments at fair value and fair value is based on readily available published values. The Board's investments consist of various mutual funds. Money market funds invested through brokerage accounts are considered investments.

Capital Assets

Furniture and equipment purchases of \$500 or more with an expected useful life greater than one year are considered capital assets. Capital assets are recorded at cost and are depreciated over their estimated useful lives. Furniture and equipment are depreciated over a 5 year period. 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 as a non-operating activity.

Unearned Revenues

The Board's fees for individual license renewals are assessed and collected on a fiscal year basis, which corresponds with the accounting period. Individual licenses are renewed for a period of one fiscal year. Individual license renewal fees received prior to the end of the fiscal year are deferred and recognized as revenue in the period to which they relate. Annual corporate renewals are assessed and collected on a calendar year basis. Unearned revenue is recorded at June 30 to report the renewal fees not earned as of the Board's fiscal year-end.

Lease Obligation

The Board's lease for office space provides for annual increases and 3 months of free rent. These amounts are recognized on a straight-line basis over the 7-year lease period. The difference between rent expense recognized and rental payments, per the lease, is reflected as lease obligation in the financial statements.

Accrued Vacation Pay

The vacation policy of the Board provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. There is no liability for unpaid accumulated sick leave because the Board has no obligation to pay sick leave upon employee termination or retirement.

NC BOARD OF ARCHITECTURE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

The Board's net position is classified as follows:

Invested in Capital Assets - This represents the Board's total investment in capital assets, net of accumulated depreciation.

Unrestricted - This represents assets with no external restriction as to use or purpose. This equity can be employed for any purpose designated by the governing board.

Designations of net position represent management's estimates based on perceived operating conditions and situations.

Designated amounts as of June 30, 2014, were as follows:

Litigation	\$ 500,000
Operating expenses	400,000
Total reserved balances	<u>\$ 900,000</u>

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Board has a formal investment policy to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the Board. The Board maintains cash deposits within a single, private financial institution. The Board also maintains investments in two separate accounts managed by the same broker, and both accounts contain limited-term government securities mutual funds. These investment accounts are uninsured, and the mutual funds have no ratings.

At June 30, 2014, the Board had cash deposits that exceeded the Federal Depository Insurance Corporation's limits of \$250,000 by \$1,294,162. The Securities Investor Protection Corporation (SIPC) is a nonprofit membership corporation funded by its member securities broker-dealers. The SIPC insures against the loss or theft of securities as well as the failure or insolvency of the brokerage firm. Also, at June 30, 2014, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$538,720.

NC BOARD OF ARCHITECTURE
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The Board is subject to the following risks:

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Interest rate risk: Interest rate risk is the risk that the Board may face should interest rate variances affect the fair value of investments.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board's current investments are limited to mutual funds.

Investments, consisting of mutual funds, are presented at fair value based on the market prices at June 30, 2014 and 2013.

	Cost	Market	Unrealized Gain (Loss)
June 30, 2014	\$ 1,118,961	\$ 1,038,720	\$ (80,241)
June 30, 2013	\$ 1,099,278	\$ 1,024,623	\$ (74,655)

NOTE 3 - CAPITAL ASSETS

Capital assets were comprised of the following:

	Cost 6/30/2013	Additions	Disposals	Cost 6/30/2014	Accumulated Depreciation	Net Amount
Furniture/ equipment	\$ 142,683	\$ 2,063	\$ -	\$ 144,746	\$ 137,636	\$ 7,110

	Cost 6/30/2012	Additions	Disposals	Cost 6/30/2013	Accumulated Depreciation	Net Amount
Furniture/ equipment	\$ 156,312	\$ 4,450	\$ 18,079	\$ 142,683	\$ 130,234	\$ 12,449

NOTE 4 - ACCRUED VACATION

Changes to accrued vacation are as follows:

	2014	2013
Beginning accrued vacation	\$ 16,200	\$ 14,600
Vacation earned	12,840	15,513
Vacation used	(12,225)	(13,913)
Ending accrued vacation	\$ 16,815	\$ 16,200

NC BOARD OF ARCHITECTURE

Notes to Financial Statements

NOTE 5 - OPERATING LEASE

The Board's lease for office space expired on July 31, 2013, at which time the Board began paying rent on a month-to-month basis. A new lease was negotiated in November 2013 to replace the prior lease. The new lease term is for seven years beginning December 1, 2013 and ending on November 30, 2020. Rent expense for the years ended June 30, 2014 and 2013, totaled \$48,891 and \$55,528, respectively. Under the current lease, future minimum rent payments are as follows:

<u>Years Ending June 30</u>	
2015	\$ 40,131
2016	41,034
2017	45,895
2018	46,927
2019	47,983
	<u>\$ 221,970</u>

NOTE 6 - RETIREMENT PLAN

The Board has a simplified employee pension plan covering all employees who have performed services for the Board in at least one of the immediately preceding five calendar years. Participants may elect to contribute one percent to fifteen percent of their compensation to the plan each year and are fully vested in all contributions. The Board contributes six percent of compensation for all eligible employees. Total participant contributions in any calendar year are subject to limitations set by the Internal Revenue Code. For the years ended June 30, 2014 and 2013, the Board contributed \$10,481 and \$10,057, respectively, on behalf of its employees. For the years ended June 30, 2014 and 2013, the employees contributed \$10,481 and \$10,057, respectively.

NOTE 7 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are managed using a combination of the purchase of commercial insurance and various State coverages. Tort claims of board members are self-insured, by the State, under the authority of the State Tort Claims Act. Additional coverage is provided to the Board under the State's public officers' and employees' liability insurance contract.

NOTE 8 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through September 29, 2014, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed.

The Board audit was conducted in approximately 55 hours at a total cost of \$6,700.