

NC BOARD OF ARCHITECTURE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020



NC BOARD OF ARCHITECTURE
Board Members

BOARD MEMBERS (2021)

Katherine N. Peele, President

Cathy C. Morrison, Vice President

Fred Dodson, Jr., Secretary

Walter B. Sawyer, Treasurer

Timothy Hillhouse

Roula Qubain

Cora Cole-McFadden

EXECUTIVE DIRECTOR

Cathe M. Evans

ATTORNEY

M. Jack Nichols

NC BOARD OF ARCHITECTURE

Table of Contents

	<u>Page No.</u>
Management's Discussion and Analysis	1 - 2
Independent Auditor's Report	3 - 4
<i>Financial Statements</i>	
Statements of Net Position	5
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 13

NC BOARD OF ARCHITECTURE
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021

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, 2021. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

The operating revenues of the Board increased by \$28,358 due primarily to increases in individual renewals, reciprocity licenses and late fees. The operating expenses of the Board increased by \$42,932 due primarily to increases in rent and miscellaneous moving related expenses offset by a decrease in travel and legal fees. The net non-operating revenues, consisting of investment income, net of fees, decreased by \$36,612.

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, 2021

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

	As of and for the fiscal year ended June 30, 2021	As of and for the fiscal year ended June 30, 2020	As of and for the fiscal year ended June 30, 2019
Current assets	\$ 2,182,273	\$ 2,170,377	\$ 2,112,239
Non-current assets	80,388	28,397	43,247
Total assets	2,262,661	2,198,774	2,155,486
Current liabilities	455,353	405,614	423,764
Non-current liabilities	29,509	25,017	24,421
Total liabilities	484,862	430,631	448,185
Invested in capital assets	75,488	23,497	43,247
Unrestricted	1,702,311	1,744,646	1,664,054
Total net position	\$ 1,777,799	\$ 1,768,143	\$ 1,707,301
Operating revenues	\$ 643,528	\$ 615,170	\$ 610,258
Operating expenses	629,435	586,503	576,082
Operating income	14,093	28,667	34,176
Non-operating revenues (expenses)	(4,437)	32,175	37,731
Changes in net position	\$ 9,656	\$ 60,842	\$ 71,907

Events Affecting Future Operations

In July 2021, the Governor ratified Senate Bill 188 which amends NC General Statute 83A to allow for registration of interior designers and modifies the Board of Architecture to be the Board of Architecture and Registered Interior Designers.

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, 434 Fayetteville St., Suite 2005, 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, or the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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
August 25, 2021

NC BOARD OF ARCHITECTURE
Statements of Net Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS:		
Current assets:		
Cash	\$ 1,057,905	\$ 1,029,656
Prepaid expenses	2,238	4,119
Deposits on future capital assets	-	9,904
Investments	1,122,130	1,126,698
Total current assets	<u>2,182,273</u>	<u>2,170,377</u>
Non-current assets:		
Security deposit, lease	4,900	4,900
Capital assets, net of depreciation	75,488	23,497
Total non-current assets	<u>80,388</u>	<u>28,397</u>
Total assets	<u>2,262,661</u>	<u>2,198,774</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	20,703	14,264
Due to the State Treasurer	48,000	12,000
Unearned revenues	386,650	379,350
Total current liabilities	<u>455,353</u>	<u>405,614</u>
Noncurrent liabilities:		
Lease obligation	5,859	1,969
Accrued vacation pay	23,650	23,048
Total noncurrent liabilities	<u>29,509</u>	<u>25,017</u>
Total liabilities	<u>484,862</u>	<u>430,631</u>
NET POSITION:		
Invested in capital assets	75,488	23,497
Unrestricted	1,702,311	1,744,646
Total net position	<u>\$ 1,777,799</u>	<u>\$ 1,768,143</u>

NC BOARD OF ARCHITECTURE
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Individual renewals	\$ 316,800	\$ 309,250
Corporate renewals	177,003	175,750
Reciprocity	55,650	48,000
Individual reinstatement fees	8,000	10,000
Individual late fees	48,300	36,100
New firm registrations	15,450	12,525
Firm late fees	14,650	16,850
Certification fees	3,000	4,050
Miscellaneous	4,675	2,645
Total operating revenues	<u>643,528</u>	<u>615,170</u>
Operating expenses:		
Salaries and wages	232,182	228,950
Employee benefits	60,196	59,801
Payroll taxes	17,842	17,282
Legal fees	64,113	72,629
Equipment - maintenance and rental	3,972	4,427
Travel and subsistence	3,337	11,878
Rent	80,688	51,169
Board member per diem	4,150	1,400
Contractual services	3,532	2,905
Advertising	-	511
Postage and supplies	6,378	5,819
Registration and dues	11,344	10,350
Printing	292	484
Audit	10,200	10,150
Payroll service fees	1,520	1,136
Insurance	8,043	7,711
Telephone	3,909	3,500
Computer services	51,112	51,730
Miscellaneous	22,096	2,364
Online renewal expense	16,167	15,476
Depreciation	28,362	23,866
Loss on disposal	-	2,965
Total operating expenses	<u>629,435</u>	<u>586,503</u>
Operating income	<u>14,093</u>	<u>28,667</u>
Non-operating revenues (expenses):		
Interest and dividend income, net of expenses	9,616	17,044
Realized and unrealized gain (loss) on investments	(14,053)	15,131
Total non-operating revenues (expenses)	<u>(4,437)</u>	<u>32,175</u>
Changes in net position	9,656	60,842
Net position - beginning of year	<u>1,768,143</u>	<u>1,707,301</u>
Net position - end of year	<u><u>\$ 1,777,799</u></u>	<u><u>\$ 1,768,143</u></u>

NC BOARD OF ARCHITECTURE
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from fees	\$ 650,828	\$ 622,870
Cash payments to employees for services	(231,580)	(224,082)
Cash payments to suppliers for goods and services	(255,544)	(315,783)
Cash payments for other expenses	(65,137)	(49,180)
Net cash provided by operating activities	<u>98,567</u>	<u>33,825</u>
Cash flows from investing activities:		
Investment income	9,346	17,300
Purchase of investments	(1,216,256)	(844,701)
Proceeds from sale of investments	1,207,041	827,701
Net cash provided by investing activities	<u>131</u>	<u>300</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(70,449)	(7,081)
Deposits on future capital assets	-	(14,804)
Net cash used in capital and related financing activities	<u>(70,449)</u>	<u>(21,885)</u>
Net increase in cash	28,249	12,240
Cash - beginning of year	<u>1,029,656</u>	<u>1,017,416</u>
Cash - end of year	<u><u>\$ 1,057,905</u></u>	<u><u>\$ 1,029,656</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 14,093	\$ 28,667
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	28,362	23,866
Loss on disposal	-	2,965
Changes in assets and liabilities:		
Prepaid expenses	1,881	(4,119)
Accounts payable	6,439	(8,010)
Due to the State Treasurer	36,000	(17,840)
Unearned revenues	7,300	7,700
Lease obligation	3,890	(4,272)
Accrued vacation pay	602	4,868
Net cash provided by operating activities	<u><u>\$ 98,567</u></u>	<u><u>\$ 33,825</u></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 93B of the *North Carolina General Statutes*, and 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.

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 ("U.S. 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 may be included 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 Presentation

The accompanying financial statements have been prepared in accordance with U.S. GAAP 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.

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured, and depreciation is recorded as a cost of operations. 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, which is based on readily available published values. The Board's investments consist of obligations of the United States, governmental agency securities, and federal money market funds.

Capital Assets

Furniture and equipment purchases of \$1,000 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, equipment, and software are depreciated over a 3-10 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 estimated renewal fees not earned as of the Board's fiscal year-end.

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.

The Board designated amounts up to \$1,500,000 as of June 30, 2021, as follows:

Litigation	\$ 1,000,000
Operating expenses	400,000
Technology updates	100,000
Total reserved balances	<u>\$ 1,500,000</u>

NC BOARD OF ARCHITECTURE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease Obligation

The Board's lease for office space provides for annual increases. These amounts are recognized on a straight-line basis over the 10-year lease period. The difference between rent expense recognized and rental payments, per the lease, is reflected as a 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.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions, 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. Investments are maintained within a single brokerage account. Investments include obligations of the United States, governmental agency securities, and federal money market funds. The Board is subject to the following risks:

Custodial credit risk: 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. The Board's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2021, the Board had cash deposits that exceeded the FDIC limits by \$791,063. 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, 2021, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$622,130.

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

NC BOARD OF ARCHITECTURE

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At June 30, 2021, the Board's portfolio, which consisted of U.S. government and government agency funds, had the following credit ratings as rated by Moody's Investors Service:

<u>Credit Rating</u>	
AAA	\$ 882,689
AAA-mf	\$ 239,441

The maturity of the Board's U.S. government and government agency debt securities, totaling \$882,689 as of June 30, 2021, had maturities of less than 3 years.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value, as defined under U.S. GAAP, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Board's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following tables set forth by level the fair value hierarchy of the Board's financial assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2021:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Direct Government Securities	\$ 785,359	\$ -	\$ 785,359	\$ -
Government Agency Securities	97,330	-	97,330	-
	<u>\$ 882,689</u>	<u>\$ -</u>	<u>\$ 882,689</u>	<u>\$ -</u>

NC BOARD OF ARCHITECTURE

Notes to Financial Statements

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

In addition, the investment balance on the statement of net position includes government money market funds measured at the net asset value (NAV) and therefore not included in the fair value hierarchy. The government money market funds consist of U.S. Treasury and government securities maturing in 397 days or less and repurchase agreements, collateralized fully by U.S. Treasury and government securities. As of June 30, 2021, Board investments measured at the NAV totaled \$239,441.

NOTE 4 - CAPITAL ASSETS

Capital assets were comprised of the following:

	Cost 6/30/2020	Additions	Disposals	Cost 6/30/2021	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$213,240</u>	<u>\$ 80,353</u>	<u>\$ 78,138</u>	<u>\$ 215,455</u>	<u>\$ 139,967</u>	<u>\$ 75,488</u>

	Cost 6/30/2019	Additions	Disposals	Cost 6/30/2020	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$212,228</u>	<u>\$ 7,081</u>	<u>\$ 6,069</u>	<u>\$ 213,240</u>	<u>\$ 189,743</u>	<u>\$ 23,497</u>

NOTE 5 - ACCRUED VACATION

Changes to accrued vacation are as follows:

	2021	2020
Beginning accrued vacation	\$ 23,048	\$ 18,180
Vacation earned	21,035	19,654
Vacation used	(20,433)	(14,786)
Ending accrued vacation	<u>\$ 23,650</u>	<u>\$ 23,048</u>

NOTE 6 - OPERATING LEASES

The Board has an operating lease for office space in a new building. The lease term is for ten years beginning September 1, 2020 and ending August 31, 2030. The lease requires initial monthly payments of \$4,870 per month escalating annually by approximately 2.5%. The prior lease ended on November 30, 2020. Rent expense for the years ended June 30, 2021 and 2020 totaled \$80,688 and \$51,169, respectively.

The Board has an operating lease for a copier. The lease requires monthly payments of \$258 until December 2023. Rent expense related to this agreement for the years ended June 30, 2021 and 2020 totaled \$3,447 and \$3,488, respectively.

NC BOARD OF ARCHITECTURE
Notes to Financial Statements

NOTE 6 - OPERATING LEASES (Continued)

Future minimum lease payments under these operating leases are as follows:

<u>Years Ending June 30</u>	
2022	\$ 62,755
2023	64,243
2024	64,091
2025	64,238
2026	65,843
Thereafter	341,089
	<u>\$ 662,259</u>

NOTE 7 - 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, 2021 and 2020, the Board contributed \$13,121 and \$12,959, respectively, on behalf of its employees. For the years ended June 30, 2021 and 2020, the employees contributed \$13,036 and \$13,198, respectively.

NOTE 8 - 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 9 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through August 25, 2021, which is the date the financial statements were available to be issued. On July 8, 2021, the Governor of North Carolina ratified Senate Bill 188 which amends NC General Statute 83A to allow for registration of interior designers and modifies the Board of Architecture to be the Board of Architecture and Registered Interior Designers. Management discovered no other subsequent events that should be disclosed.

The Board's audit was conducted in approximately 70 hours at a total cost of \$10,600.