

NORTH CAROLINA STATE
BOARD OF BARBER EXAMINERS

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014



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NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Table of Contents

	<u>Page No.</u>
Management's Discussion and Analysis	1 - 3
Independent Auditor's Report	4 - 5
<i>Financial Statements</i>	
Statements of Net Position	6
Statements of Revenues, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 19
<i>Supplementary Information</i>	
Proportionate Share of Net Pension Liability and Schedule of Board Contributions Teachers' and State Employees' Retirement System	20

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Management's Discussion and Analysis

For The Fiscal Year Ended June 30, 2015

The following is a discussion and analysis of the North Carolina State Board of Barber Examiners' (the "Board") financial statements for the fiscal year ended June 30, 2015. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous years are presented in the analysis.

Financial Highlights

The operating revenues of the Board increased by approximately \$63,000 or 8.1%, primarily due to changes in cash handling procedures. The North Carolina Daily Deposit Act requires every state agency to deposit and report all funds on a daily basis. The Board previously had not complied with this statute, but in May 2015, it changed its cash-handling procedures to comply. As a result, earned revenues from late fees, penalties and fines, legal fees reimbursed and other miscellaneous receipts increased by approximately \$51,000 due to more timely processing of these receipts. In addition, there was an increase in the revenues of new and renewal applications for shop permits of approximately \$16,000, but this change is consistent with the variable revenues over the past decade and is within expected parameters.

The operating expenses of the Board increased by approximately \$28,000 or 3.1%, primarily from costs from a worker's compensation claim, which offset decreases in other operating expenses. This claim has been addressed in previous financial statements, and the costs included a final settlement that will ultimately end the negative effect this claim has had on the Board's financial resources.

Overview of the Basic Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of the following components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to Financial Statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2015

Basic Financial Statements

The basic 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 noncurrent positions of assets and liabilities separately.

The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's net position changed as a result of the year's operations.

The Statements of Cash Flows present information on how the Board's cash changed as a result of the year's activity.

The following presents condensed financial information on the operations of the Board as of and for the year ended June 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 473,089	\$ 407,436	\$ 549,074
Capital assets - net of depreciation	65,089	77,523	84,845
Deferred outflows of resources	65,659	33,688	-
Total assets	<u>603,837</u>	<u>518,647</u>	<u>633,919</u>
Current liabilities	525,976	333,118	361,144
Noncurrent liabilities	71,517	186,989	32,345
Deferred inflows of resources	103,321	-	-
Total liabilities	<u>700,814</u>	<u>520,107</u>	<u>393,489</u>
Investment in capital assets	65,089	77,523	84,845
Unrestricted	(162,066)	(78,983)	155,585
Total net position	<u>\$ (96,977)</u>	<u>\$ (1,460)</u>	<u>\$ 240,430</u>
Operating revenues	\$ 831,258	\$ 768,736	\$ 832,878
Operating expenses	928,200	900,404	861,484
Operating loss	<u>(96,942)</u>	<u>(131,668)</u>	<u>(28,606)</u>
Non-operating revenues	1,425	1,794	2,419
Changes in net position	<u>\$ (95,517)</u>	<u>\$ (129,874)</u>	<u>\$ (26,187)</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2015

Events Affecting Future Operations

For multiple fiscal years, the Board has operated at a deficit in order to maintain resources necessary for its current level of regulation. The Board requested authorization from the General Assembly to increase its licensing and other fees, but the bill did not pass. Although the bill will be considered in 2016, the Board will be taking measures to address its budget imbalance, which may include staff cuts. These cuts would negatively affect operations but would improve the Board's financial picture. If the General Assembly eventually approves fee increases, the Board will be able to return to at least its current level of operations.

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 the North Carolina State Board of Barber Examiners, 5809 Departure Drive, Suite 102, Raleigh, NC 27616-1858.

Independent Auditor's Report

Members of the Board
North Carolina State Board of Barber Examiners
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Board of Barber Examiners (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of June 30, 2015 and 2014, 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 North Carolina State Board of Barber Examiners as of June 30, 2015 and 2014, and its changes in financial position and 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, these financial statements are presented only for the North Carolina State Board of Barber Examiners and do not purport to and do not present fairly the financial position of the State of North Carolina as of June 30, 2015 and 2014, nor the changes in its financial position and its cash flows thereof 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 Management's Discussion and Analysis, on pages 1 - 3 and the Schedules of Proportionate Share of Net Pension Liability and Board Contributions Teachers' and State Employees' Retirement System on page 19, 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
October 23, 2015

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Statements of Net Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS:		
Current assets:		
Cash - State Treasurer	\$ 462,739	\$ 405,084
Accounts receivable	10,350	-
Prepaid expenses	-	2,352
Total current assets	<u>473,089</u>	<u>407,436</u>
Capital assets - net of depreciation	<u>65,089</u>	<u>77,523</u>
Total assets	<u>538,178</u>	<u>484,959</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension deferrals	6,066	-
Contributions to pension plan in current fiscal year	59,593	33,688
Total deferred outflows of resources	<u>65,659</u>	<u>33,688</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	30,327	24,832
Due to employees	1,279	4,085
Unearned revenue	409,870	304,201
Liability under workers compensation claim settlement	84,500	-
Total current liabilities	<u>525,976</u>	<u>333,118</u>
Noncurrent liabilities:		
Accrued vacation	42,910	41,285
Net pension liability	28,607	145,704
Total noncurrent liabilities	<u>71,517</u>	<u>186,989</u>
Total liabilities	<u>597,493</u>	<u>520,107</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension deferrals	<u>103,321</u>	<u>-</u>
NET POSITION:		
Investment in capital assets	65,089	77,523
Unrestricted	<u>(162,066)</u>	<u>(78,983)</u>
Total net position	<u>\$ (96,977)</u>	<u>\$ (1,460)</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**Statements of Revenues, Expenses and Changes in Net Position****Years Ended June 30, 2015 and 2014**

	2015	2014
Operating revenues:		
Registered certificates	\$ 281,560	\$ 283,572
Apprentice certificates	40,520	39,720
Instructor certificates	13,526	10,965
Apprentice exam fees	64,770	68,525
Registered exam fees	26,660	31,630
Instructor exam fees	8,415	10,890
Shop permits	133,525	117,610
Student permits	30,300	28,875
School permits	4,260	5,200
Inspection fees	33,960	29,060
Late fees	100,705	77,985
Fines and penalties	27,573	15,400
Legal fees reimbursed	44,936	35,549
Miscellaneous	20,548	13,755
Total operating revenues	831,258	768,736
Operating expenses:		
Salaries and wages	393,430	396,614
Payroll taxes	28,775	28,963
Pension expense	13,846	56,949
Medical insurance contributions	43,019	42,979
Board members' per diem	3,800	3,800
Travel - board members	3,815	3,644
Travel - staff	65,381	63,511
Other contracted services	20,006	31,883
Office rent	63,273	67,461
Telephone	12,975	12,285
Exam	9,054	10,719
Depreciation	16,381	16,776
Equipment rental and maintenance	10,694	12,008
Office supplies	22,108	24,103
Printing	6,632	6,069
Postage	11,566	10,650
Insurance and bonding	8,946	7,436
Legal services	5,099	27,354
Accounting and auditing	6,900	6,700
Computer services	23,718	28,022
Seminar and educational materials	460	4,810
Civil penalties remitted to State Treasurer	25,834	16,102
Workers' compensation claim	125,512	17,896
Miscellaneous	6,976	3,670
Total operating expenses	928,200	900,404
Operating loss	(96,942)	(131,668)
Non-operating revenues:		
Interest income	1,425	1,794
Total non-operating revenues	1,425	1,794
Changes in net position	(95,517)	(129,874)
Restatement (Note 10)	-	(112,016)
Net position - beginning of year	(1,460)	240,430
Net position - end of year	\$ (96,977)	\$ (1,460)

See Notes to Financial Statements

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from fees	\$ 928,929	\$ 757,246
Cash payments to employees for services	(525,998)	(515,242)
Cash payments for suppliers of goods and services	(211,857)	(279,325)
Cash payments for other operating expenses	(130,802)	(96,657)
Net cash provided by (used in) operating activities	<u>60,272</u>	<u>(133,978)</u>
Cash flows from capital and investing activities:		
Purchase of capital assets	(4,042)	(9,454)
Interest	1,425	1,794
Net cash used in capital and investing activities	<u>(2,617)</u>	<u>(7,660)</u>
Increase (decrease) in cash	57,655	(141,638)
Cash - beginning of year	405,084	546,722
Cash - end of year	<u>\$ 462,739</u>	<u>\$ 405,084</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (96,942)	\$ (131,668)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	16,381	16,776
Loss on disposal of equipment	95	-
Restatement	-	(112,016)
Changes in assets and liabilities:		
Accounts receivable	(10,350)	-
Prepaid expenses	2,352	-
Deferred outflows of resources	(31,971)	(33,688)
Accounts payable	5,495	(17,859)
Due to employees	(2,806)	1,323
Accrued vacation	1,625	8,940
Unearned revenue	105,669	(11,490)
Net pension liability	(117,097)	145,704
Liability under workers compensation claim settlement	84,500	-
Deferred inflows of resources	103,321	-
Total adjustments	<u>157,214</u>	<u>(2,310)</u>
Net cash provided by (used in) operating activities	<u>\$ 60,272</u>	<u>\$ (133,978)</u>
Supplemental disclosures of noncash capital activities:		
Capital asset write-offs	<u>\$ 29,408</u>	<u>\$ 27,782</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The North Carolina State Board of Barber Examiners (the "Board") is an independent State agency. It is an occupational licensing board authorized by Chapter 86A of the *North Carolina General Statutes*. The five Board members are appointed by the Governor of the State of North Carolina. The Board is entitled to the services of the Attorney General of North Carolina.

The Board's function is to maintain minimum standards for services provided by barbers, barber apprentices and barber schools. The Board's operations are funded primarily through license fees, license examination fees and other income.

Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's *Comprehensive Annual Financial Report* (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

Basis of Presentation

The accompanying basic 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).

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 have been 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. Fees received for the various licenses are deemed earned when the license period begins.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The Board classifies its revenues and expenses as operating or non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of license renewal and examination fees. Operating expenses are all expense transactions 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 include activities that have characteristics of non-exchange transactions and consist primarily of investment activities.

Cash - 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.

Accounts Receivable

Accounts receivable consist of civil penalties and legal fees due from administrative proceedings and are shown at book value less an allowance for doubtful accounts of \$1,800, which approximates 15% of the receivable balance at June 30, 2015.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Board capitalizes assets that have a cost of \$1,000 or greater at the date of acquisition and an expected useful life in excess of one year. Depreciation is computed using the straight-line method over the following useful lives:

Equipment, furniture and software	3 - 10 years
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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 non-operating revenue or expense for the period.

Unearned Revenues

Licenses are renewed for a period of one year. License applications, renewal fees, and exam fees received in advance are deferred and recognized as revenue in the period to which they relate.

Accrued Vacation

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. In addition, effective September 1, 2014 all full time permanent employees were given an additional five days of annual leave which shall remain available until used.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element called deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The Board has two items that meet the criterion for this category - contributions made to the pension plan in the 2015 fiscal year and deferrals of pension assets that resulted from the implementation of GASB Statement No. 68. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has one item that meets the criterion for this category - deferrals of pension expense that result from the implementation of GASB Statement No. 68.

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. Unrestricted net assets can be employed for any purpose designated by the governing board, as distinguished from funds restricted externally for specific purposes.

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 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 - CUSTODIAL CREDIT RISK

Cash - State Treasurer

Deposits include cash on deposit with the State Treasurer. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**Notes to Financial Statements**

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	<u>Cost 6/30/14</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/15</u>	<u>Accum. Depreciation</u>	<u>Net Amount</u>
Equipment/ furniture/ software	<u>\$ 199,771</u>	<u>\$ 4,042</u>	<u>\$ 29,408</u>	<u>\$ 174,405</u>	<u>\$ 109,316</u>	<u>\$ 65,089</u>

	<u>Cost 6/30/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/14</u>	<u>Accum. Depreciation</u>	<u>Net Amount</u>
Furniture/ equipment	<u>\$ 218,099</u>	<u>\$ 9,454</u>	<u>\$ 27,782</u>	<u>\$ 199,771</u>	<u>\$ 122,248</u>	<u>\$ 77,523</u>

NOTE 4 - ACCRUED VACATION

Accrued vacation consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Beginning accrued vacation	\$ 41,285	\$ 32,345
Vacation earned	36,495	27,820
Vacation used	(34,870)	(18,880)
Ending accrued vacation	<u>\$ 42,910</u>	<u>\$ 41,285</u>

NOTE 5 - RETIREMENT PLAN**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.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

NOTE 5 - RETIREMENT PLAN (Continued)

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, 2015 was 9.15% of covered payroll. The Board's contributions to the pension plan were \$59,593 and employee contributions were \$23,342 for the year ended June 30, 2015.

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 2014 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.

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.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

NOTE 5 - RETIREMENT PLAN (Continued)

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 2014 Comprehensive Annual Financial Report.

Net Pension Liability

At June 30, 2015, the Board reported a liability of \$28,607 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the Board's proportion was 0.00244%, which was an increase of 0.00004% from its proportion measured as of June 30, 2013.

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	12/31/2013
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, 2013 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 STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

NOTE 5 - RETIREMENT PLAN (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, 2014 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.50%
Global Equity	6.10%
Real Estate	5.70%
Alternatives	10.50%
Credit	6.80%
Inflation Protection	3.70%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 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 (dollars in thousands):

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**Notes to Financial Statements**

NOTE 5 - RETIREMENT PLAN (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.25%)</u>
\$205,361	\$28,607	(\$120,636)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2015, the Board recognized pension expense of \$13,846. At June 30, 2015, 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 Pension by Classification

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between actual and expected experience	\$ -	\$ 6,668
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	96,653
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,066	-
Employer contributions subsequent to the measurement date	59,593	-
	<u>\$ 65,659</u>	<u>\$ 103,321</u>

The amount reported as deferred outflows of resources related to pensions of \$59,593 will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as 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:

<u>Year Ended June 30:</u>	
2016	\$ (24,321)
2017	(24,321)
2018	(24,321)
2019	(24,292)
2020	-
Thereafter	-
	<u>\$ (97,255)</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**Notes to Financial Statements**

NOTE 5 - RETIREMENT PLAN (Continued)

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.

Deferred Outflow Amount	<u>\$ 59,593</u>
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Changes in Long-Term Liabilities

	<u>Net Pension Liability</u>
Balance July 1, 2014	\$ -
Prior year adjustments	145,704
Additions	-
Deletions	(117,097)
Balance, June 30, 2015	<u>\$ 28,607</u>
Due within one year	<u>\$ -</u>

NOTE 6 - OPERATING LEASES

The Board entered into a seven-year lease agreement for office facilities in May 2003, effective September 1, 2003, which provided the option to renew for two additional five-year periods. On September 24, 2010, the Board opted to renew the lease for five years from November 1, 2010, to October 31, 2015 and in September 2015, the Board exercised its final option to renew the lease for an additional five-year period. The lease rates for the five-year renewal are subject to the Consumer Price Index increase not to exceed 1.5%.

In September 2013, the Board entered into a lease agreement for a new copier which calls for 60 monthly payments of approximately \$576. Under the agreement, the new leasing company paid the Board the balance under the old copier lease of \$6,422 to be applied to the remaining payments of approximately \$400 per month under the old lease which expires in December 2014.

Total rent expense under operating leases charged to operations was \$63,273 and \$67,461 for the years ended June 30, 2015 and 2014, respectively.

The following is a schedule of future minimum rental payments under the leases at June 30, 2015:

<u>Years Ending June 30:</u>	
2016	\$ 65,365
2017	66,242
2018	67,132
2019	62,852
Thereafter	82,823
	<u>\$ 344,414</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

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. 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 with a private insurance company. The Board also protects itself from exposures to loss through the purchase of commercial insurance, of which coverage includes building and contents, commercial liability, workers' compensation and employers' liability.

NOTE 8 - CONTINGENT LIABILITIES

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, the results of such actions during the years under audit do not materially affect the financial position of the Board at year-end.

During the years ended June 30, 2015 and 2014 the Board paid workers' compensation claims of approximately \$41,000 and \$18,000, respectively, related to a claim made by a former employee. In September 2015 the Board reached a final settlement of the claim which requires the Board to pay additional costs of approximately \$84,500. This liability has been accrued at June 30, 2015 and consists of settlement costs of \$59,500; wages from July 1, 2015 through September 30, 2015 of approximately \$5,000; and medical costs incurred but not paid by the Board through June 30, 2015, which is estimated at approximately \$20,000. The Board is now covered under a workers' compensation insurance policy.

NOTE 9 - RELATED PARTY TRANSACTION

The Board pays fees to a family member of its staff related to janitorial services which amounted to \$4,200 for the fiscal years ended June 30, 2015 and 2014.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLES - PRIOR YEAR RESTATEMENT

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 is effective for the fiscal year ending June 30, 2015. The implementation of the statement required the Board to record beginning net pension liability and the effects on net position of contributions made by the Board during the measurement period (fiscal year ending June 30, 2014). As a result the following restatements were made:

	Originally Reported	As Adjusted	Effect of Change
Net pension liability	\$ -	\$ 145,704	\$ 145,704
Deferred outflows of resources related to pensions	\$ -	\$ 33,688	\$ 33,688
Net Position	\$ 110,556	\$ (1,460)	\$ (112,016)

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

NOTE 11 - RECLASSIFICATION

Certain amounts in the prior year financial statements were reclassified to conform to the current year presentation.

NOTE 12 - NET DEFICIT

The Board has experienced significant net operating losses for the past two years. In addition to the operating losses, the Board was required to implement GASB No. 68 as noted in Note 10, thus causing an additional increase to the net deficit of the Board. The Board's request for a fee increase did not pass in October 2015. In October 2015, the Board passed a motion to eliminate certain staff positions effective January 31, 2016. The elimination of staff positions, specifically inspector positions, will require rule changes. The fee increase proposal will come before the North Carolina Legislature again in 2016.

NOTE 13 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through October 23, 2015, which is the date the financial statements were available to be issued. Management discovered no subsequent events which should be disclosed.

The audit was conducted in approximately 110 hours at a cost of \$9,300.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Proportionate Share of Net Pension Liability and Schedule of Board Contributions
Teachers' and State Employees' Retirement System
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Proportionate of the net pension liability (asset)	0.00244%	0.00240%
Proportionate of the net pension liability (asset)	\$ 28,607	\$ 145,704
Covered-employee payroll	393,430	396,614
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	7.27%	36.74%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%
Contributions		
Contractually required contribution	\$ 82,935	79,713
Contributions in relation to the contractually required contribution	<u>82,935</u>	<u>79,713</u>
Contributions deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered-employee payroll	\$ 393,430	\$ 396,614
Contributions as a percentage of covered- employee payroll	21.08%	20.10%