

**NORTH CAROLINA STATE
BOARD OF BARBER EXAMINERS**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

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NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017

The following is a discussion and analysis of the North Carolina State Board of Barber Examiners' (the "Board") financial performance for the fiscal year ended June 30, 2017. 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 \$46,963 or 5.87%, primarily due to the year-to-year fluctuations in revenues. Over a period of six fiscal years, revenues have been between 5.61% below average (in fiscal year 2014) and 4.03% above average (in the current fiscal year). This fiscal year's revenues were higher than previous fiscal years but appear to be within the normal range of variations.

The operating expenses of the Board decreased by \$39,374, or 5.08%, primarily due to staff cuts made in January for the fiscal year 2016. This year, the staff cuts were effective for an entire fiscal year and thus generated additional cost savings compared to fiscal year 2016.

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, 2017

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:

	2017	(Restated) 2016	2015
Current assets	\$ 547,599	\$ 430,010	\$ 473,089
Capital assets - net of depreciation	42,362	48,873	65,089
Total assets	589,961	478,883	538,178
Deferred outflows of resources	143,692	35,680	65,659
Current liabilities	429,704	452,289	525,976
Noncurrent liabilities	237,331	101,179	71,517
Total liabilities	667,035	553,468	597,493
Deferred inflows of resources	20,288	30,123	103,321
Net position:			
Investment in capital assets	42,362	48,873	65,089
Unrestricted	3,968	(117,901)	(162,066)
Total net position	\$ 46,330	\$ (69,028)	\$ (96,977)
Operating revenues	\$ 847,317	\$ 800,354	\$ 831,258
Operating expenses	735,005	774,379	928,200
Operating income (loss)	112,312	25,975	(96,942)
Non-operating revenues	3,046	1,974	1,425
Changes in net position	\$ 115,358	\$ 27,949	\$ (95,517)

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2017

Events Affecting Future Operations

The Board's long-term financial outlook has improved substantially, following spending cuts made in fiscal year 2016. These cuts have had a negative impact on operations, which the Board is addressing by increasing its online transactions and requesting authorization from the General Assembly to increase fees. The Board believes that modest fee increases, perhaps based on the Consumer Price Index, would allow it to continue building on its financial health while improving efficiency and operations.

The Board has proposed a rule, scheduled to become effective on January 1, 2018, that would require all individual licenses and barbershop licenses to be renewed online, unless the licensee receives a hardship waiver. This rule change would improve how quickly the Board issues licenses and processes applications and would increase the quality of the Board's financial controls.

The Board will be assessing whether certain capital outlays - for example, replacing an aging phone system and increasing the number of online applications - may be necessary. The Board will fit this assessment within its overarching goal of continuing to improve its long-term financial health.

The Board has been approached about possible legislation to move the Board of Electrolysis Examiners under our Board, forming a newly merged board. The two boards are currently working on merger plans, and we anticipate that any merger legislation would be considered in 2018. If any legislation is approved, the merger would affect operations by increasing the number of licensed programs that the Board administers. However, the Board does not anticipate any negative financial impact from a merger because of the existing revenue stream and fund balance for the Board of Electrolysis Examiners.

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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 18, 2017

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Statements of Net Position
June 30, 2017 and 2016

	2017	(Restated) 2016
ASSETS:		
Current assets:		
Cash - State Treasurer	\$ 517,284	\$ 418,138
Accounts receivable, net	30,315	7,185
Prepaid expenses	-	4,687
Total current assets	<u>547,599</u>	<u>430,010</u>
Capital assets - net of depreciation	<u>42,362</u>	<u>48,873</u>
Total assets	<u>589,961</u>	<u>478,883</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension deferrals	118,464	4,466
Contributions to pension plan in current fiscal year	25,228	31,214
Total deferred outflows of resources	<u>143,692</u>	<u>35,680</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	31,342	22,318
Due to employees	2,205	1,118
Unearned revenue	396,157	428,853
Total current liabilities	<u>429,704</u>	<u>452,289</u>
Noncurrent liabilities:		
Accrued vacation	36,047	32,634
Net pension liability	201,284	68,545
Total noncurrent liabilities	<u>237,331</u>	<u>101,179</u>
Total liabilities	<u>667,035</u>	<u>553,468</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension deferrals	20,288	30,123
NET POSITION:		
Investment in capital assets	42,362	48,873
Unrestricted	3,968	(117,901)
Total net position	<u>\$ 46,330</u>	<u>\$ (69,028)</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**Statements of Revenues, Expenses and Changes in Net Position****Years Ended June 30, 2017 and 2016**

	2017	(Restated) 2016
Operating revenues:		
Registered certificates	\$ 311,813	\$ 292,926
Apprentice certificates	40,425	35,600
Instructor certificates	14,335	9,199
Apprentice exam fees	111,540	121,890
Registered exam fees	33,475	31,705
Instructor exam fees	7,095	8,910
Shop permits	140,367	116,027
Student permits	23,300	31,350
School permits	5,070	5,070
Inspection fees	38,620	29,320
Late fees	66,280	71,715
Fines and penalties	26,775	12,923
Legal fees reimbursed	24,925	24,076
Miscellaneous	3,297	9,643
Total operating revenues	<u>847,317</u>	<u>800,354</u>
Operating expenses:		
Salaries and wages	257,594	336,862
Payroll taxes	18,081	24,967
Pension expense	56,213	48,981
Medical insurance contributions	29,265	37,391
Board members' per diem	3,300	2,200
Travel - board members	3,721	2,262
Travel - staff	32,595	47,422
Other contracted services	26,471	18,939
Office rent	64,716	66,481
Telephone	11,852	10,479
Exam	10,476	10,818
Depreciation	17,389	16,216
Equipment rental and maintenance	9,466	9,504
Office supplies	24,422	20,138
Printing	4,044	2,066
Postage	10,015	16,334
Insurance and bonding	18,974	9,085
Legal services	69,255	30,138
Accounting and auditing	9,670	9,300
Computer services	21,125	35,075
Seminar and educational materials	60	20
Civil penalties remitted	24,419	9,686
Workers' compensation claim	-	4,893
Miscellaneous	11,882	5,122
Total operating expenses	<u>735,005</u>	<u>774,379</u>
Operating income	<u>112,312</u>	<u>25,975</u>
Non-operating revenues:		
Interest income	3,046	1,974
Total non-operating revenues	<u>3,046</u>	<u>1,974</u>
Changes in net position	115,358	27,949
Net position - beginning of year (restated)	<u>(69,028)</u>	<u>(96,977)</u>
Net position - end of year	<u>\$ 46,330</u>	<u>\$ (69,028)</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	(Restated) 2016
Cash flows from operating activities:		
Cash received from fees	\$ 796,178	\$ 817,815
Cash payments to employees for services	(341,761)	(461,919)
Cash payments for suppliers of goods and services	(288,851)	(262,582)
Cash payments for other operating expenses	(58,588)	(139,889)
Net cash provided by (used in) operating activities	<u>106,978</u>	<u>(46,575)</u>
Cash flows from investing activities:		
Purchase of capital assets	(10,878)	-
Interest	3,046	1,974
Net cash provided by (used in) investing activities	<u>(7,832)</u>	<u>1,974</u>
Increase (decrease) in cash	99,146	(44,601)
Cash - beginning of year	418,138	462,739
Cash - end of year	<u>\$ 517,284</u>	<u>\$ 418,138</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 112,312	\$ 25,975
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	17,389	16,216
Changes in assets and liabilities:		
Accounts receivable	(23,130)	3,165
Prepaid expenses	4,687	(4,687)
Deferred outflows of resources	(108,012)	29,979
Accounts payable	9,024	(8,009)
Due to employees	1,087	(161)
Accrued vacation	3,413	(10,276)
Unearned revenue	(32,696)	18,983
Net pension liability	132,739	39,938
Liability under workers compensation claim settlement	-	(84,500)
Deferred inflows of resources	(9,835)	(73,198)
Total adjustments	<u>(5,334)</u>	<u>(72,550)</u>
Net cash provided by (used in) operating activities	<u>\$ 106,978</u>	<u>\$ (46,575)</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, barber instructors, barber shops, 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 may be 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 GAAP as prescribed by the 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 \$10,700 and \$6,500 at June 30, 2017 and 2016, respectively.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Board capitalizes assets that have a cost of \$5,000 or greater at the date of acquisition and an expected useful life of two years or greater. 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 2017 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 resulted 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 6/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/17</u>	<u>Accum. Depreciation</u>	<u>Net Amount</u>
Equipment/ furniture/ software	<u>\$ 174,405</u>	<u>\$ 10,878</u>	<u>\$ -</u>	<u>\$ 185,283</u>	<u>\$ 142,921</u>	<u>\$ 42,362</u>
	<u>Cost 6/30/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/16</u>	<u>Accum. Depreciation</u>	<u>Net Amount</u>
Equipment/ furniture/ software	<u>\$ 174,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,405</u>	<u>\$ 125,532</u>	<u>\$ 48,873</u>

NOTE 4 - ACCRUED VACATION

Accrued vacation consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Beginning accrued vacation	<u>\$ 32,634</u>	<u>\$ 42,910</u>
Vacation earned	<u>17,633</u>	<u>23,936</u>
Vacation used	<u>(14,220)</u>	<u>(34,212)</u>
Ending accrued vacation	<u>\$ 36,047</u>	<u>\$ 32,634</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.

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 North Carolina 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, 2017 was 9.15% of covered payroll. The Board's contributions to the pension plan were \$25,228 and employee contributions were \$14,710 for the year ended June 30, 2017.

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 2016 *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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability

At June 30, 2017, the Board reported a liability of \$201,284 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the Board's proportion was 0.00219%, compared to .00186% as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	4.25% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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)

Actuarial Assumptions (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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.40%
Global Equity	5.30%
Real Estate	4.30%
Alternatives	8.90%
Credit	6.00%
Inflation Protection	4.00%

The information above is based on 30-year expectations developed with the consulting actuary and is part of the 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 3.05%. 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 to Changes in the Discount Rate (Continued)

<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.25%)</u>
\$378,576	\$201,284	\$52,205

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

For the year ended June 30, 2017, the Board recognized pension expense of \$56,213. At June 30, 2017, 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	\$ -	\$ 9,513
Changes of assumptions	29,684	-
Net difference between projected and actual earnings on pension plan investments	71,784	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,996	10,775
Employer contributions subsequent to the measurement date	25,228	-
	<u>\$ 143,692</u>	<u>\$ 20,288</u>

The amount reported as deferred outflows of resources related to pensions of \$25,228 will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. 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>Years Ending June 30:</u>	
2018	\$ 16,821
2019	16,817
2020	40,612
2021	23,926
2022	-
	<u>\$ 98,176</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, 2018.

Deferred Outflow Amount	<u>\$ 25,228</u>
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Changes in Long-Term Liabilities

	<u>Net Pension Liability</u>
Balance July 1, 2016	\$ 68,545
Additions	132,739
Deletions	-
Balance, June 30, 2017	<u>\$ 201,284</u>
Due within one year	<u>\$ -</u>

NOTE 6 - OPERATING LEASES

The Board exercised the final option to renew its building lease for an additional five-year period effective September 1, 2015. The lease rates for the five-year renewal are subject to the Consumer Price Index increase not to exceed 1.5%.

The Board has a copier lease with monthly payments of approximately \$576 expiring September 30, 2018.

Total lease expense under operating leases charged to operations was \$64,716 and \$66,481 for the years ended June 30, 2017 and 2016, respectively.

The following is a schedule of future minimum rental payments under the leases at June 30, 2017:

<u>Years Ending June 30:</u>	
2018	\$ 66,011
2019	61,715
2020	60,887
2021	10,198
	<u>\$ 198,811</u>

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, directors' and officers' liability, workers' compensation and employers' liability.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

Notes to Financial Statements

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.

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, 2017 and 2016.

NOTE 10 - RESTATEMENT

Management has restated unearned revenue and operating revenues as of and for the year ended June 30, 2016 for the effect of an accounting error reflected in the prior year's financial statements. The effects of the changes as of and for the year ended June 30, 2016 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Unearned revenue	\$ 469,608	\$ 428,853	\$ (40,755)
Operating revenues	\$ 759,599	\$ 800,354	\$ 40,755
Unrestricted net position	\$ (158,656)	\$ (117,901)	\$ 40,755

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through October 18, 2017, 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 75 hours at a cost of \$10,050.

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Proportionate share percentage of the net pension liability (asset)	0.00219%	0.00186%
Proportionate share of the net pension liability (asset)	\$ 201,284	\$ 68,545
Covered-employee payroll	257,594	336,862
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	78.14%	20.35%
Plan fiduciary net position as a percentage of the total pension liability	87.32%	94.64%
Contributions:		
Contractually required contribution	\$ 39,938	\$ 50,789
Contributions in relation to the contractually required contribution	<u>39,938</u>	<u>50,789</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 257,594	\$ 336,862
Contributions as a percentage of covered-employee payroll	15.50%	15.08%