

**STATE BOARD OF EXAMINERS
OF ELECTRICAL CONTRACTORS
FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS

JUNE 30, 2017 AND 2016

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Independent Auditors' Report

The Honorable Roy A. Cooper
Governor of North Carolina
State Board of Examiners of Electrical Contractors
The General Assembly of North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the State Board of Examiners of Electrical Contractors as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State Board of Examiners of Electrical Contractors as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State Board of Examiners of Electrical Contractors 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 June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* on pages 5-8 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.

Other Postemployment Benefits

Accounting principles generally accepted in the United States of America require that certain disclosures concerning other postemployment benefits be presented as required supplementary information (see page 22) to 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. The required supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and we have applied certain limited procedures, 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 basic financial statements. In our opinion, the information is fairly stated

in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 17, 2017 and August 26, 2016 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Garrett, Dodd & Associates Ltd.

Durham, North Carolina
August 17, 2017

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

This section of the North Carolina State Board of Examiners of Electrical Contractors financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2017. This information should be read in conjunction with the audited financial statements included in this report.

Overview of the Financial Statements

The Statements of Net Position provide information relative to the Board's assets, liabilities, and the resulting net position as of the last day of the fiscal year. Assets and liabilities on these statements are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. The Board currently has unearned license fees allocable to future years which constitute deferred inflows. Net position on these statements is categorized as either invested in capital assets or unrestricted. Overall, the statements of Net Position provide information relative to the financial strength of the board and its ability to meet current and long-term obligations.

The Statements of Revenues, Expenses, and Changes in Net Position provide information relative to the results of the Board's operations, non-operating activities, and other activities affecting net position that occurred during the fiscal year. Operating activities include the licensure and examination activities for the public practice of electrical contracting in the State. Non-operating activities include primarily investment income and, occasionally, income from sale of equipment. Overall, the Statements of Revenues, Expenses, and changes in net Position provide information relative to the Board's management of its operations and its ability to maintain its financial strength. The above statements are articulated by agreeing the ending net position reported on both statements.

The Statements of Cash Flows provide information relative to the Board's sources and uses of cash funds for operating activities, capital financing activities, and investing activities. These statements provide a reconciliation of beginning cash balances to ending cash balances and are representative of activity reported on the Statements of Revenues, Expenses, and Changes in Net Position as adjusted for changes in beginning and ending balances of noncash accounts on the Statements of Net Position.

The three statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with GASB, the financial statements are presented on the Board as a whole and use reporting concepts in a manner similar to that required of a business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balances.

In using the basic financial statements, the Notes to the Financial Statements should be read in conjunction with the basic financial statements. The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the basic financial statements, authority for and associated risk of deposits and investments, detailed information on capital assets and noncurrent liabilities, revenues,

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

and expenses, and required information on pension plans. Overall, the Notes to the Financial Statements provide information to better understand details, risks, and uncertainties associated with amounts reported in the basic financial statements.

Financial Analysis

Net position is an indicator of the financial health of the Board. The Board's net position increased from \$484,536 as of June 30, 2016 to \$558,861 as of June 30, 2017, an increase of \$74,325.

Condensed Statements of Net Position

The following condensed statements summarize the Board's assets, liabilities and net position as of June 30, 2017, 2016 and 2015.

	Condensed Statement of Net Position		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$1,690,330	\$1,602,933	\$1,557,160
Capital assets	<u>66,239</u>	<u>63,036</u>	<u>55,067</u>
Total assets	<u>1,756,569</u>	<u>1,665,969</u>	<u>1,612,227</u>
Liabilities:			
Current liabilities	104,638	109,278	82,619
Long-term liabilities	<u>287,230</u>	<u>241,636</u>	<u>206,245</u>
Total liabilities	391,868	350,914	288,864
Unearned revenue	<u>805,840</u>	<u>830,519</u>	<u>773,854</u>
Total liabilities and unearned revenue	1,197,708	1,181,433	1,062,718
Net Position:			
Invested in capital assets	66,239	63,036	55,067
Unrestricted	<u>492,622</u>	<u>421,500</u>	<u>494,442</u>
Total net position	<u>\$ 558,861</u>	<u>\$ 484,536</u>	<u>\$ 549,509</u>

Current Assets

Current assets consist principally of cash and certificates of deposit of \$1,658,683 and \$1,527,502, respectively as of June 30, 2017 and 2016. However in years prior to June 30, 2017 the Board maintained an inventory of Code Books for sale to licensees and others and totaled \$51,244 in 2016. The Board no longer sells Code Books.

Current assets increased in the year ended June 30, 2017 largely due to the sale of the remaining Code Books without having to expend the cost to replace them and management's efforts to reduced expenses.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Capital Assets

Capital assets declined in the year ended June 30, 2017 by \$46,528 due to disposal of three older automobiles and acquiring one new automobile and computer equipment.

Liabilities

Long-term liabilities increased by \$42,223 in the year 2017 primarily due to its obligation to provide insurance benefits to retirees as Other Postemployment Benefits.

Net Position

The Board's net position consists of amounts invested in capital assets as of June 30, 2017 and 2016 of \$66,239 and \$63,036, respectively, and unrestricted net assets of \$492,622 and \$421,500. The Board has made certain internal designations of these unrestricted amounts.

The following Condensed Statements of Revenues, Expenses and Changes in Net Position present the Board's operating results for the years ending as indicated:

Condensed Statement of Revenues, Expenses and Changes in Net Position
For The years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:			
License fees	\$1,466,049	\$1,377,445	\$1,304,288
Exam fees	100,900	97,650	94,235
Other	<u>124,907</u>	<u>165,646</u>	<u>170,500</u>
	<u>1,691,856</u>	<u>1,640,741</u>	<u>1,569,023</u>
Operating Expenses:			
Salaries and employee benefits	796,586	797,937	777,628
Professional fees	196,392	202,575	198,783
Insurance	122,049	125,491	125,204
Rent	60,301	58,915	57,948
Costs-Code Books	51,244	140,668	111,519
Other	369,485	346,850	363,057
Postemployment benefits other than pensions	<u>46,327</u>	<u>41,885</u>	<u>42,187</u>
	<u>1,642,384</u>	<u>1,714,321</u>	<u>1,676,326</u>
Operating Income (Loss)	<u>49,472</u>	<u>(73,580)</u>	<u>(107,303)</u>
Non-operating Income (Expenses)	<u>\$ 24,853</u>	<u>\$ 8,607</u>	<u>\$ 4,316</u>

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Change in Net Position	\$ 74,325	\$ (64,973)	\$(102,987)
Net Position - Beginning	<u>484,536</u>	<u>549,509</u>	<u>652,496</u>
Net Position - Ending	<u>\$ 558,861</u>	<u>\$ 484,536</u>	<u>\$ 549,509</u>

Operating Revenues

Operating Revenues were \$1,691,856 and \$1,640,741 for the years ended June 30, 2017 and 2016 respectively. The increased revenue in 2017 primarily relates to license fees. Licensee renewal occurs in all twelve months of a year which necessitates a calculation of amounts deferred to another Board fiscal year. The change in deferred license fees from one year to the next can increase license revenue or decrease license revenue. The increase in license revenue attributable to a change in deferred revenue amounted to approximately \$40,000 in 2017. A new Board rule effective early in the 2017 fiscal year, caused licensees who were approaching twelve months of delinquency to renew before passing the twelve month time line. Renewals would revert back to the original expiration date and may have required a licensee to renew an additional time, as well, within the same fiscal year of the Board.

Operating Expenses

Management's focus on cost control helped to reduce expenses from June 30, 2016 to June 30, 2017. In addition, cost of code books sold declined by approximately \$72,000 in 2017 because management was selling out its code book inventory starting in 2016 and continuing into 2017.

Request for information

This report is intended to provide a summary of the financial position the NC State Board of Examiners of Electrical Contractors. Questions or requests for additional information should be addressed to Tim Norman, Executive Director, 3101 Industrial Drive, Suite 206, Raleigh, NC 27609, 919-733-9042

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
STATEMENTS OF NET POSITION
ENTERPRISE FUND
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 1,101,654	\$ 971,187
Certificates of deposit	<u>557,029</u>	<u>556,315</u>
Total	1,658,683	1,527,502
Inventory (Note 10)	-	51,244
Prepaid expense (Note 6)	<u>31,647</u>	<u>24,187</u>
Total Current Assets	1,690,330	1,602,933
Noncurrent assets:		
Capital assets (Note 8)		
Furniture and equipment	875,419	870,508
Vehicles	<u>130,210</u>	<u>181,649</u>
	1,005,629	1,052,157
Less accumulated depreciation	<u>939,390</u>	<u>989,121</u>
Total Noncurrent Assets	66,239	63,036
Total Assets	<u>1,756,569</u>	<u>1,665,969</u>
LIABILITIES		
Current liabilities		
Accounts payable	47,154	54,612
Accrued vacation (Note 9)	40,506	54,666
Amount due engineering foundation (Note 7)	<u>16,978</u>	<u>-</u>
Total Current Liabilities	104,638	109,278
Long-term liabilities		
Liability for postemployment benefits other than pensions (Note 5)	266,377	224,554
Accrued vacation	<u>20,853</u>	<u>17,082</u>
Total Long-term liabilities	287,230	241,636
Total Liabilities	391,868	350,914
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	805,840	830,519
NET POSITION		
Net Investment in capital assets	66,239	63,036
Unrestricted (Note 6)	<u>492,622</u>	<u>421,500</u>
Total Net Position	<u>\$ 558,861</u>	<u>\$ 484,536</u>

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUND
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Charges for services:		
License fees	\$ 1,466,049	\$ 1,377,445
Examination and application fees	100,900	97,650
Code books	53,930	107,518
Administrative fees	54,935	42,430
Other	16,042	15,698
Total operating revenues	<u>1,691,856</u>	<u>1,640,741</u>
OPERATING EXPENSES		
Office rent (Note 3)	60,301	58,915
Telecommunications	13,589	11,005
Insurance	122,049	125,491
Postage	18,493	25,393
Office supplies	16,058	15,964
Equipment maintenance	51,670	41,983
Outside printing	443	13,976
Depreciation	27,326	22,814
Audit expense	7,300	8,125
Board member expense	46,145	40,286
Staff expense	52,824	55,836
Legal fees	177,992	183,350
Salaries and temporary labor	697,939	704,869
Payroll taxes	50,018	49,231
Retirement (Note 4)	48,629	43,837
Postemployment benefits other than pensions (Note 5)	46,327	41,885
Sales tax	3,410	6,917
Dues and publications	1,374	2,192
Exam expense	62,875	50,858
Payroll services	2,078	2,060
Accounting services	11,100	11,100
Miscellaneous	1,076	2,264
Costs - code books	51,244	140,668
Credit card transaction fees	39,860	39,459
Background searches	6,695	7,671
Engineering Foundation (Note 7)	16,978	-
Civil penalties	8,591	8,172
Total operating expenses	<u>1,642,384</u>	<u>1,714,321</u>
Operating loss	\$ 49,472	\$ (73,580)

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 ENTERPRISE FUND
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	<u>2017</u>	<u>2016</u>
NONOPERATING REVENUES (EXPENSES):		
Interest Income	\$ 7,915	\$ 8,607
Gain on sale of vehicles	16,938	-
Nonoperating revenues (expenses)	<u>24,853</u>	<u>8,607</u>
Change in net position	74,325	(64,973)
Unrestricted net position - beginning	<u>484,536</u>	<u>549,509</u>
Unrestricted net position - ending	<u>\$ 558,861</u>	<u>\$ 484,536</u>

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from licensees and applicants	\$ 1,566,949	\$ 1,475,095
Cash received from others	124,907	165,646
Cash paid to employees and professionals	(904,720)	(899,017)
Cash paid to suppliers	<u>(650,279)</u>	<u>(535,976)</u>
Net cash flows from operating activities	136,857	205,748
Cash flows from capital and related financing activities		
Acquisition of capital assets	(30,529)	(30,783)
Proceeds from sale of vehicles	<u>16,938</u>	<u>-</u>
	(13,591)	(30,783)
Cash flows from investing activities		
(Increase in) certificates of deposit	(714)	(1,178)
Receipt of interest income	<u>7,915</u>	<u>8,607</u>
Net cash flows from investment activities	7,201	7,429
Net change in cash and cash equivalents	130,467	182,394
Cash and cash equivalents - beginning	<u>971,187</u>	<u>788,793</u>
Cash and cash equivalents - ending	<u><u>\$ 1,101,654</u></u>	<u><u>\$ 971,187</u></u>
Reconciliation of operating income to net cash flows from operating activities		
Operating Income	\$ 49,472	\$ (73,580)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	27,326	22,814
Changes in assets and liabilities:		
Decrease in inventory	51,244	140,668
(Increase) in prepaid expenses	(7,460)	(2,869)
Increase (decrease) in accounts payable	(7,458)	15,994
Increase (decrease) in accrued vacation	(10,389)	8,427
Increase (decrease) in unearned revenue	(24,679)	56,665
Increase in liability for postemployment benefits	41,823	37,629
Increase in amount due Engineering Foundation	<u>16,978</u>	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 136,857</u></u>	<u><u>\$ 205,748</u></u>

See Independent Auditors' Report and Notes to Financial Statements

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 – Summary of Significant Accounting Policies

Description of Organization

The State Board of Examiners of Electrical Contractors (the Board) is an occupational licensing board and is authorized under Chapter 87 of the North Carolina General Statutes.

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 statement of net position reflects all assets including long-term assets, and all obligations including long-term obligations.

The statement of revenues, expenses and changes in net position presents a comparison between direct expenses and program revenues of the Board. Primary revenues include fees and other charges paid by licensees.

Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, the Board's accounts are maintained during the year using the modified accrual basis of accounting. However, at year-end, financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash flows take place.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
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Use of Estimates

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

Deferred Inflows of Resources

Unearned revenues consist principally of license fees collected in advance and sales of code books collected in advance, if any.

Capital Assets

Capital assets are defined by the Board as assets with an initial individual cost of \$300 or more and an estimated useful life of more than two years. Purchased assets are reported at cost. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are expensed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5 - 10
Computer equipment	3 - 4
Vehicles	4 - 5

Accrued Vacation

The vacation leave policy of the Board provides for accumulation of earned vacation leave with such leave being fully vested when earned. Because vacation leave is payable to employees at termination, a liability for the outstanding balances has been recorded. That portion of accrued vacation that is estimated to be used in the next fiscal year has been designated as a current liability in the financial statements (first-in, first-out method of using accumulated time).

Postemployment Benefits Other Than Pensions

The Board provides healthcare benefits to retirees who have reached certain combinations of age and years of service as more fully described in Note 5.

Net Position

Net position in the financial statements reflects net investments in capital assets, and unrestricted amounts.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 - continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Board considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Definition of Operating Versus Non-Operating Revenues

Operating revenues are considered to be all revenues directly related to the provision of services. All other revenues are considered non-operating.

Note 2 – Deposits and Investments

The Board maintains cash balances, money market accounts and certificates of deposit at several financial institutions in Raleigh, North Carolina. Certificates of deposit have a book and market value of \$557,029 at June 30, 2017. Certificates of deposit have varying interest rates and staggered maturities over the next year.

Custodial Credit Risk – Deposits. 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. As of June 30, 2017 there was custodial credit risk on the Board's bank deposits in the amount of \$521,983.

Note 3 – Operating Leases

The Board leases office space under a lease expiring in August, 2019. Future minimum lease commitments are as follows:

Year Ending	
<u>June 30,</u>	<u>Amount</u>
2018	61,808
2019	<u>10,343</u>
	<u>\$72,151</u>

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
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Note 4 – Pension Plans

Defined Contribution Plan

The Board and its employees along with seven other licensing boards, are participants in the North Carolina Licensing Boards Retirement Plan, a 401(k) defined contributions plan covering eligible employees. The plan requires a mandatory employee contribution equal to 6% of each participant's compensation. In addition, the employer is required to make a contribution equal to 6% of each participant's compensation for the year. Employee contributions are fully vested at all times. Employees are eligible to participate in the retirement plan on the date of employment. Vesting of employer contributions begins at the completion of one year of service (20%) and increases an additional 20% per year until reaching 100% vesting in year five. Normal retirement age is deemed to be age 65. Benefits are distributed to participants pursuant to the election of the plan participant.

For the years ended June 30, 2017 and 2016 the Board contributed \$48,629 and \$43,837, respectively. There were no employer liabilities to the North Carolina Licensing Boards Retirement Plan at June 30, 2017 or 2016.

Note 5 – Postemployment Benefits Other Than Pensions

Plan Description. The Board has a defined benefit healthcare plan in place for retirees who meet certain conditions. The plan provides lifetime healthcare insurance for eligible retirees through the Board's group health insurance plan which covers both active and retired employees. Employees retiring on or after age sixty and having at least ten, but less than twenty, years of Board service are eligible for health insurance provided by the Board by paying 50% of the health insurance premium. Employees retiring on or after age sixty and having completed twenty or more years of Board service are eligible for health insurance paid entirely by the Board. Employees retiring after completion of thirty years of service at any age are eligible for health insurance paid entirely by the Board. When a retiree becomes eligible for Medicare, the Board will pay the cost of supplemental insurance coverage based on the above criteria. Family members may be covered at the retiree's expense.

Funding Policy. The Board operates its healthcare plan on a "pay-as-you-go" basis. For the year ended June 30, 2017, the Board contributed \$4,503 for healthcare coverage for retirees. In 2017, total retiree contributions were \$4,256.

Annual OPEB Cost and Net OPEB Obligation. The Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Board has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total participants. The ARC represents a level of funding that, if paid on an ongoing basis, is

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NOTES TO FINANCIAL STATEMENTS
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Note 5 – Postemployment Benefits Other Than Pensions

projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes to the Board's net OPEB obligation to the plan.

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$39,590	\$36,277
Interest on net OPEB obligation	6,737	5,608
Adjustment to annual required contribution		
Annual OPEB cost (expense)	<u>46,327</u>	<u>41,885</u>
Contributions made	<u>(4,503)</u>	<u>(4,256)</u>
Increase in net OPEB obligation	41,824	37,629
Net OPEB obligation – beginning of year	<u>224,554</u>	<u>186,925</u>
Net OPEB obligation – end of year	<u>\$266,378</u>	<u>\$224,554</u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the two preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/15	42,187	9.8%	186,925
6/30/16	41,885	10.2%	224,554
6/30/17	46,327	9.7%	266,378

Funded Status and Funding Progress. As of June 30, 2017, the actuarial accrued liability for benefits was \$376,309, all of which was unfunded. However, the Board has segregated \$128,140 in a money market fund to be used to fund future postemployment benefits other than pensions and will deposit its annual required contribution into this account. Retiree benefits will be paid from this account.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 5 – Postemployment Benefits Other Than Pensions

multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – The retirement age is assumed to be age 60 with the requisite years of service unless employment has already continued beyond age 60 or after 30 years of service is reached if not yet age 60.

Mortality – Life expectancies were based on mortality tables from the National Vital Statistics Reports, Volume 58, number 21 published June 28, 2010. The United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. Rates ranged from 3.4% to 9.4% from 2010 to 2020 and beyond.

Health insurance premiums – 2017 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the Board's short-term investment portfolio, a discount rate of 3.0 percent was used. In addition, the unit credit cost method was used for actuarial calculations because payroll is not a factor in determining benefits. The unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at June 30, 2017, was twenty-three years.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 6 – Net Position

The Board has adopted the following policies in order to assure that all expenses of the Board for the current fiscal year be fully provided for:

- a) In an effort to provide resources to replace existing fixed assets, the Board assigns funds equal to a calculated amount of the annual depreciation. This reserve is cumulative (currently \$317,229) and is reduced by the purchase of replacement assets. In response to GASB 51, agencies and component units of the State of North Carolina will follow new capitalization thresholds for intangible assets, including internally generated computer software, effective July 1, 2009. Because the threshold becomes \$1,000,000 in the future and major upgrades to software have been completed, it is highly unlikely that resources will be called upon to replace computer software that would amount to more than \$1,000,000 or to replace office upfitting for its existing facilities.
- b) Reserves of net position for prepaid expenses. At June 30, 2017, net position reserved for prepaid expenses consists principally of insurance and conference fees.
- c) The Board reserves net position for inventory. At June 30, 2016, the Board reserved \$51,244 for code books but for 2017 has no remaining inventory
- d) During the fiscal year ended June 30, 1999, the Board approved establishing a reserve of \$2,000 per year for retiree health and hospitalization insurance. For June 30, 2012, the reserve was increased by \$4,000 to \$32,000. However, Government Accounting Standards Board (GASB) Statement 45, Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions, has become effective. GASB Statement 45 requires that the annual required contribution, as actuarially calculated, be recorded in the statement of revenues, expenses and changes in net position and any corresponding other postemployment benefit (OPEB) liability be recognized on the statement of net position, minus any benefits paid out. Accordingly, the retiree health insurance reserve does not measure the obligation for future benefits, but does recognize that future benefits must be provided.

Unrestricted net position is summarized as follows:

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Designated		
Replacement of capital assets	\$317,229	\$320,433
Prepaid expenses	31,647	24,187
Inventory		51,244
Retiree insurance	<u>32,000</u>	<u>32,000</u>
	380,876	427,864
Unrestricted	<u>111,746</u>	<u>(6,364)</u>
	<u>\$492,622</u>	<u>\$421,500</u>

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 7 – Amount Due Engineering Foundation, Inc.

Chapter 87, Article 45 of the General Statutes provides that the Board shall retain no more than 20% of the prior year's gross revenue after providing for payment of prior year liabilities and designated amounts to purchase code books, replace existing fixed assets or provide for retiree health insurance. The excess funds shall be turned over to the North Carolina Engineering Foundation, Inc. for the benefit of the Electrical Engineering Department of the Greater University of North Carolina.

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Enterprise fund assets	\$1,658,683	\$1,602,933
Less:		
Liabilities exclusive of amount due		
Engineering Foundation, Inc.	(852,994)	(885,131)
Amount designated for retiree health insurance	(128,140)	(127,174)
Amount expended for code book inventory	-	(51,244)
Amount designated for replacement of existing fixed assets	<u>(317,229)</u>	<u>(320,433)</u>
	360,320	218,951
Not more than 20% of annual total revenue	<u>343,342</u>	<u>329,870</u>
Amount due Engineering Foundation, Inc.	<u>\$ 16,978</u>	<u>\$ 0</u>

Note 8 – Capital Assets

Changes in capital assets for the year ended June 30, 2017 were as follows:

ASSETS				
	<u>June 30,</u>			<u>June 30,</u>
	<u>2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017</u>
Furniture and equipment	\$ 870,508	\$ 4,911		\$ 875,419
Vehicles	<u>181,649</u>	<u>25,618</u>	<u>\$77,057</u>	<u>130,210</u>
	<u>\$1,052,157</u>	<u>\$30,529</u>	<u>\$77,057</u>	<u>\$1,005,629</u>
RESERVES				
	<u>June 30,</u>	<u>Depreciation</u>		<u>June 30,</u>
	<u>2016</u>	<u>Expense</u>	<u>Retirements</u>	<u>2017</u>
Furniture and equipment	\$859,543	\$ 6,565		\$866,108
Vehicles	<u>129,578</u>	<u>20,761</u>	<u>\$77,057</u>	<u>73,282</u>
	<u>\$989,121</u>	<u>\$27,326</u>	<u>\$77,057</u>	<u>\$939,390</u>

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 9 – Accrued Vacation

Accrued vacation is summarized for June 30, 2017 as follows:

	June 30, <u>2016</u>	<u>Additions</u>	<u>Usage</u>	June 30, <u>2017</u>
Accrued vacation liability	\$71,748	\$30,117	\$40,506	\$61,359

The current portion of accrued vacation at June 30, 2017 is estimated at \$40,506.

Note 10 – Inventories

Inventory includes code books which are purchased by electrical contractors from the Board. Inventory for 2016 was carried at net realizable value. During the year ended June 30, 2017 all code books were sold and will no longer be available for sale.

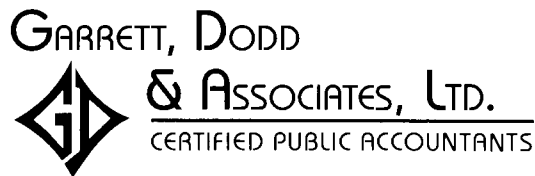
Note 11 – Subsequent Events

Management has evaluated subsequent events through August 17, 2017, the date the financial statements were available to be issued.

STATE BOARD OF EXAMINERS OF ELECTRICAL CONTRACTORS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017 AND 2016

Schedule of Funding Progress
For Retiree Health Insurance

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Simplified Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)
6/30/10	0	\$238,721	\$238,721	0
6/30/11	0	269,907	268,568	0
6/30/12	0	269,907	261,661	0
06/30/13	0	269,907	256,609	0
06/30/14	0	287,515	270,347	0
06/30/15	0	342,759	321,460	0
06/30/16	0	341,536	315,981	0
06/30/17	0	376,309	346,250	0



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

State Board of Examiners of Electrical Contractors
Raleigh, North Carolina

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Board of Examiners of Electrical Contractors (Board) as of and for the years ended June 30, 2017 and June 30, 2016 and the related notes to the financial statements and have issued our report thereon dated August 17, 2017 and August 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material* weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did

identify a deficiency in internal control described in a separate letter on internal control deficiencies, that we consider be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

GARRETT, DODD & ASSOCIATES, LTD.

Garrett, Dodd & Associates, Ltd.

Durham, North Carolina
August 17, 2017