

BOARD MEMBERS

T. G. PROFFIT Chairman
J. R. DUNN Vice Chairman
J. N. ROYAL Secretary/Treasurer
W. H. EUBANKS Immediate Past Chairman
D. H. EDWARDS, JR.
R. J. OWENS
W. H. SULLIVAN III Board Member Emeritus



BOARD OFFICE

1109 Dresser Ct., Raleigh, NC 27609
Phone: 919-875-3612 /
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E-Mail: information@nclicensing.org
Website: www.nclicensing.org

D. L. DAWSON Executive Director

State Board of Examiners of Plumbing, Heating & Fire Sprinkler Contractors

May 3, 2016

- To the North Carolina Secretary of State,
- To the North Carolina Attorney General,
- To the North Carolina Joint Legislative Administrative Procedure Oversight Committee,
- To the Office of State Budget and Management
- Office of State Auditor
- Office of State Controller

ANNUAL REPORT filed pursuant to the requirements of G.S. 87-20 and G.S. 93 B-2 for the year ending December 31, 2015

1. State Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors, 1109 Dresser Ct., Raleigh, North Carolina 27609
 - a. **Members of the Board:**
 - William H. Eubanks, Wilmington, NC
 - Tommy G. Proffit, Lenoir, NC
 - John N. Royal, Raleigh, NC
 - D. Hunter Edwards, Charlotte, NC
 - William H. Sullivan III, Greensboro, NC
 - Jeffrey Dunn, Dunn, NC
 - Robert Owens, Raleigh, NC
 - b. **Officers of the Board:**

Chairman	William H. Eubanks
Vice Chairman	Tommy G. Proffit
Secretary/Treasurer	John N. Royal

2. The number of persons who applied to the board for examination	1197
3. The number who were refused examination	4
4. The number who took the examination	960
5. The number to whom initial licenses were issued	366
6. The number who applied for license by reciprocity or comity	0
7. The numbers who were granted licenses by reciprocity or comity	0
a. The number of official complaints received involving licensed and unlicensed activities	612
b. The number of disciplinary actions taken against licensees, or other actions taken against non-licensees, including injunctive relief:	
i. Disciplinary action against Licensees	233
ii. Actions against non-licensees, including injunctive relief	181
8. The number of licenses suspended or revoked	
1. Suspensions	19
2. Revoked	11
9. The number of licenses terminated for any reason other than failure to pay the required renewal fee	11
10. The substance of any anticipated request by the occupational licensing board to the General Assembly to amend statutes related to the occupational licensing board	N/A

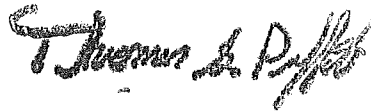
11. The substance of any anticipated changes in rules adopted by the occupational licensing board or the substance of any anticipated adoption of new rules by the occupational licensing board N/A

COPY OF ANNUAL FINANCIAL REPORT IS ATTACHED.

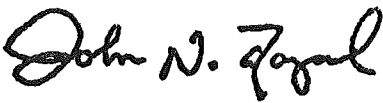
Respectfully submitted, this the 3rd day of May, 2016,



William H. Eubanks
Chairman



Tommy G. Proffit
Vice Chairman



John N. Royal
Secretary/Treasurer



Dale L. Dawson
Executive Director

**STATE BOARD OF EXAMINERS OF PLUMBING,
HEATING, AND FIRE SPRINKLER CONTRACTORS**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Board Members

BOARD MEMBERS (2015)

William H. Eubanks, Chairman

Thomas G. Proffit, Vice Chairman

John N. Royal, Secretary/Treasurer

Hunter Edwards

William H. Sullivan III

Jeffrey R. Dunn

Robert Owens

EXECUTIVE DIRECTOR

Dale L. Dawson

LEGAL COUNSEL

John N. Fountain

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Table of Contents

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

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015

Introduction

The following is a discussion and analysis of the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors' (the "Board") financial statements for the year ended December 31, 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 year are presented in the analysis.

Financial Highlights

During 2015, the operating revenues of the Board decreased by \$807, or approximately .04%, an insignificant amount of the total budget of \$1,990,000.

During 2015, the non-operating revenues of the Board increased by \$18,383, or 337%. This was due to higher interest earnings on the Board's account balances, which resulted from changing banking institutions.

During 2015, the operating expenses of the Board decreased by \$49,343 or 2.6%. This was primarily due to vacancies in a number of Administrative Officer positions resulting from the resignation of three employees, decreasing expenditures in payroll, insurance, and travel.

Overview of the 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).

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 portions 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 years' activity.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014

The following presents condensed financial information on the operations of the Board as of December 31, and its operating and non-operating revenues and expenses for the years then ended:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 2,908,282	\$ 2,736,642	\$ 2,624,481
Capital assets	1,523,107	1,575,953	1,640,498
Noncurrent assets	<u>101,490</u>	<u>74,410</u>	<u>-</u>
Total assets	<u>4,532,879</u>	<u>4,387,005</u>	<u>4,264,979</u>
Current liabilities	1,466,146	1,468,329	1,430,841
Noncurrent liabilities	<u>41,884</u>	<u>35,642</u>	<u>26,000</u>
Total liabilities	<u>1,508,030</u>	<u>1,503,971</u>	<u>1,456,841</u>
Investment in capital assets	1,523,107	1,575,953	1,640,498
Unrestricted	<u>1,501,742</u>	<u>1,307,081</u>	<u>1,167,640</u>
Total net position	<u>\$ 3,024,849</u>	<u>\$ 2,883,034</u>	<u>\$ 2,808,138</u>
Operating revenues	\$ 2,003,833	\$ 2,004,640	\$ 2,066,374
Operating expenses	<u>(1,874,947)</u>	<u>(1,924,290)</u>	<u>(1,912,549)</u>
Operating income	128,886	80,350	153,825
Non-operating revenues (expenses)	<u>12,929</u>	<u>(5,454)</u>	<u>14,925</u>
Changes in net position	<u>\$ 141,815</u>	<u>\$ 74,896</u>	<u>\$ 168,750</u>

Events Affecting Future Operations

Management is considering upgrades to the building systems, including the purchase and installation of alternative emergency power supply systems (generator, solar panels, batteries, etc.) to maintain the lighting, HVAC and technology infrastructure (servers, networks, etc.) in the event of a power outage due to weather-related or man-made events.

The Board implemented a Post-Employment Health Benefits Plan effective January 1, 2014, which resulted in an actuarial accrued liability of approximately \$64,000 at January 1, 2014 and an estimated annual required contribution of approximately \$11,000 for the years ending December 31, 2015 and 2014. The Board contributed \$75,000 in 2014, \$25,000 in 2015, and plans to contribute \$25,000 in 2016. The Board will also obtain a new actuarial study which will be effective January 1, 2017, and will consider the actuarial valuation when making future contributions.

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. If you have any questions about this report or need additional information, contact: State Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors, 1109 Dresser Court, Raleigh, NC 27609.

Independent Auditor's Report

Members of the Board
State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors (the "Board"), which comprise the statements of net position as of December 31, 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 basic 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 State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors as of December 31, 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 State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors and do not purport to and do not present fairly the financial position of the State of North Carolina as of December 31, 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 the Management's Discussion and Analysis, on pages 1 – 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 21, 2016

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Statements of Net Position
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,900,500	\$ 2,727,537
Prepaid expenses	7,782	9,105
Total current assets	<u>2,908,282</u>	<u>2,736,642</u>
Capital assets - net of depreciation:		
Land and building	1,374,125	1,400,948
Furniture and office equipment	23,681	25,854
Vehicles	125,301	149,151
Total capital assets - net of depreciation	<u>1,523,107</u>	<u>1,575,953</u>
Noncurrent assets:		
Investments - designated	<u>101,490</u>	<u>74,410</u>
Total assets	<u>4,532,879</u>	<u>4,387,005</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	42,024	44,257
Compensated absences- current portion	13,200	16,400
Unearned revenue	1,410,922	1,407,672
Total current liabilities	<u>1,466,146</u>	<u>1,468,329</u>
Noncurrent liabilities:		
Compensated absences - long-term portion	19,800	24,600
Other postemployment benefits obligation	22,084	11,042
Total noncurrent liabilities	<u>41,884</u>	<u>35,642</u>
Total liabilities	<u>1,508,030</u>	<u>1,503,971</u>
NET POSITION:		
Investment in capital assets	1,523,107	1,575,953
Unrestricted	<u>1,501,742</u>	<u>1,307,081</u>
Total net position	<u>\$ 3,024,849</u>	<u>\$ 2,883,034</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenues:		
License fees	\$ 1,810,670	\$ 1,812,796
Examination and application fees	126,195	121,190
Late processing fees	13,901	18,540
Other operating income	53,067	52,114
Total operating revenues	<u>2,003,833</u>	<u>2,004,640</u>
Operating expenses:		
Salaries and wages	720,683	764,372
Payroll taxes	54,151	58,939
Retirement contributions	59,388	62,167
Employee insurance	113,856	104,769
Other postemployment benefits contribution	11,042	11,042
Board members' expenses	52,155	41,457
Travel and lodging	62,652	53,158
Contracted temporary services	8,084	13,019
Telephone	11,691	10,309
Depreciation	70,941	90,196
Computer support	39,392	40,563
Building maintenance and utilities	30,834	28,245
Examination costs	82,275	72,069
Hearing expenses	21,072	26,468
Office and computer expenses	76,140	71,939
Printing	22,662	28,634
Postage and shipping	19,627	22,466
Insurance	42,248	40,233
Dues and publications	2,123	2,113
Legal, audit, and other professional fees	364,961	361,916
Continuing education expenses	8,970	12,688
Unemployment claims	-	7,528
Total operating expenses	<u>1,874,947</u>	<u>1,924,290</u>
Operating income	<u>128,886</u>	<u>80,350</u>
Non-operating revenues (expenses):		
Interest income	13,092	7,423
Unrealized loss on investments	(163)	(590)
Net loss on sale of assets	-	(12,287)
Total non-operating revenues (expenses)	<u>12,929</u>	<u>(5,454)</u>
Changes in net position	141,815	74,896
Net position - beginning of year	<u>2,883,034</u>	<u>2,808,138</u>
Net position - end of year	<u>\$ 3,024,849</u>	<u>\$ 2,883,034</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from fees	\$ 1,954,016	\$ 1,995,057
Cash received from other operating revenues	53,067	52,114
Cash payments to employees for services	(956,078)	(993,247)
Cash payments to suppliers of goods and services	(698,824)	(687,682)
Cash payments for other operating expenses	(146,972)	(143,412)
Net cash provided by operating activities	<u>205,209</u>	<u>222,830</u>
Cash flows from investing activities:		
Purchase of investments	(25,000)	(75,000)
Interest reinvested	(2,243)	-
Interest on investments	13,092	7,423
Net cash used in investing activities	<u>(14,151)</u>	<u>(67,577)</u>
Cash flows from capital and financing activities:		
Acquisition of capital assets	(18,095)	(60,200)
Proceeds from sale of capital assets	-	22,262
Net cash used in capital and financing activities	<u>(18,095)</u>	<u>(37,938)</u>
Net increase in cash and cash equivalents	172,963	117,315
Cash and cash equivalents - beginning of year	<u>2,727,537</u>	<u>2,610,222</u>
Cash and cash equivalents - end of year	<u>\$ 2,900,500</u>	<u>\$ 2,727,537</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 128,886	\$ 80,350
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	70,941	90,196
Changes in assets and liabilities:		
Prepaid expenses	1,323	5,154
Accounts payable	(2,233)	(3,443)
Unearned revenues	3,250	42,531
Compensated absences	(8,000)	(3,000)
Other postemployment benefits obligation	11,042	11,042
Total adjustments	<u>76,323</u>	<u>142,480</u>
Net cash provided by operating activities	<u>\$ 205,209</u>	<u>\$ 222,830</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 87 of the North Carolina General Statutes (NCGS). The Board is composed of seven members who are appointed by the Governor.

The Board is established to protect the public health, safety and welfare of the citizens of North Carolina by maintaining minimum standards for services provided by plumbing, heating and fire sprinkler contractors.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

Financial Reporting Entity

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

The accompanying financial statements present all funds and activities for which the Board is responsible.

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 recognized when a liability has been incurred, regardless of the timing of the cash flows.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

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

Basis of Accounting (Continued)

The Board classifies its revenues 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 examination and license fees. Operating expenses are all expense transactions incurred other than those related to capital and non-capital 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*.

Nonoperating revenues and expenses include activities that have characteristics of nonexchange transactions and consist primarily of investment activities.

Cash and Cash Equivalents

This classification includes cash on deposit and money market accounts with financial institutions. For purposes of the statements of cash flows, the Board considers all investments with an original maturity of three months or less when purchased as cash equivalents.

Investments

Investments consist of equities and mutual funds and are reported at fair value. Fair values are based on readily available market quotes. In 2015 the Board elected to early adopt GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. The requirements of GASB Statement No. 72 are effective for financial statements for periods beginning after June 15, 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 two years. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	7-40 years
Furniture, office equipment, and software	3-10 years
Vehicles	8 years

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 Revenue

The Board's fees are assessed and collected on a calendar year basis, which corresponds with the Board's accounting period. Licenses are renewed for a period of one calendar year. License renewal fees received in the latter part of the fiscal year are reported as unearned revenue and recognized as revenue over the one-year period to which they relate.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

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

Compensated Absences

Board employees may accumulate up to thirty days earned vacation which is fully vested when earned. The Board approved a new policy in 2013 whereby employees with a minimum of 100 banked hours, who have taken a minimum of 40 hours of vacation during the previous twelve calendar months prior to December 1 of each year, may participate in the Board's vacation leave buyback program. The employee can sell back a maximum of 80 hours of vacation time annually, but may not fall below 80 hours of accrued vacation time banked. The Board paid \$10,318 and \$13,789 to employees under the vacation buy-back program for the years ended December 31, 2015 and 2014, respectively.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave credits at the rate of 8 hours per month for full-time permanent employees. During 2013, the Board approved a new policy whereby employees with a minimum of 700 hours of sick leave accumulated may participate in the Board's sick leave buy-back program. The employee can sell back a maximum of 80 hours of sick time during a calendar year, but must maintain a minimum of 620 hours in sick leave. The Board paid \$6,452 and \$4,290 to employees under the sick leave buy-back program for the years ended December 31, 2015 and 2014, respectively. Since the Board had no obligation for accumulated sick leave at December 31, 2015, no accrual for sick leave has been made.

Employees who are eligible and elect to participate in the vacation and sick leave buyback programs must notify the Board no later than November 15 of each year with the payment made to the employee on December 15.

Net Position

The Board's net position is classified as follows:

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

Unrestricted - This represents assets with no externally imposed stipulations 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.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 2 - DEPOSITS

The Board's deposits include cash on deposit with Wells Fargo Bank (the "Bank") in operating and money market accounts.

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's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits exceeding FDIC limits are collateralized daily by Public Funds owned by the Bank.

NOTE 3 - INVESTMENTS

During 2014, the Board created a designated fund to be used for funding the post-employment benefits, described in Note 8, to be segregated from other funds of the Board and not to be used for any other purpose. The Board's investment policy stipulates the funds may be invested by the Board in any type investment used by the State Retirement System for investment of its retirement funds, but excluding derivatives, hedge funds, options, real estate or the equivalent. The funds are monitored by the Board's Chairman to ensure dividends are being earned and, if necessary, the Board has the option to change the investment mix upon Board approval. An initial amount of \$75,000 was invested in the fund in 2014 with \$25,000 to be added to the fund annually beginning in 2015.

There are no legal limitations on the types of investments by the Board. The Board has adopted formal investment policies to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the Board.

The Board is subject to the following risks:

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

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board manages credit risk by diversifying its investment portfolio. Investments are limited to:

- Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
- Obligations of the State of North Carolina.
- Time deposits of financial institutions with a physical presence in North Carolina. Time deposit accounts insured by the FDIC are favored over those insured by other entities.

The bank deposits included in the investments below are insured by the FDIC up to \$250,000. The equities and mutual funds are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. The SIPC is a nonprofit member corporation funded by its member securities broker-dealers. The SIPC insures against the loss or theft of securities as well as the failure or insolvency of the brokerage firm.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 3 - INVESTMENTS (Continued)

The following table presents the cost and fair value of investments by type and investments subject to interest rate risk and credit risk at December 31, 2015 and 2014:

	December 31, 2015		
	Cost	Fair Value	Unrealized Loss
Bank deposits	\$ 34,254	\$ 34,254	\$ -
Equities	62,819	62,066	(753)
Mutual funds	5,170	5,170	-
Total investments	<u>\$ 102,243</u>	<u>\$ 101,490</u>	<u>\$ (753)</u>

	December 31, 2014		
	Cost	Fair Value	Unrealized Loss
Bank deposits	\$ 40,219	\$ 40,219	\$ -
Equities	30,271	29,681	(590)
Mutual funds	4,510	4,510	-
Total investments	<u>\$ 75,000</u>	<u>\$ 74,410</u>	<u>\$ (590)</u>

Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Board utilizes market data or assumptions that market participants would use in pricing the asset or liability.

A three-tier fair value hierarchy is used to prioritize the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Board's assets at fair value as of December 31, 2015 and 2014:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Bank deposits	\$ 34,254	\$ -	\$ -	\$ 34,254
Equities	62,066	-	-	62,066
Mutual funds	5,170	-	-	5,170
Total investments	<u>\$ 101,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,490</u>

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Bank deposits	\$ 40,219	\$ -	\$ -	\$ 40,219
Equities	29,681	-	-	29,681
Mutual funds	4,510	-	-	4,510
Total investments	<u>\$ 74,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,410</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended December 31, 2015 and 2014 are as follows:

	Cost 12/31/2014	Additions	Retirements	Cost 12/31/2015	Accum. Depreciation	Net Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,184,910	-	-	1,184,910	310,785	874,125
Furniture/ equipment	388,362	18,095	-	406,457	382,776	23,681
Vehicles	190,800	-	-	190,800	65,499	125,301
	<u>\$2,264,072</u>	<u>\$ 18,095</u>	<u>\$ -</u>	<u>\$2,282,167</u>	<u>\$ 759,060</u>	<u>\$1,523,107</u>

	Cost 12/31/2013	Additions	Retirements	Cost 12/31/2014	Accum. Depreciation	Net Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,180,710	4,200	-	1,184,910	283,962	900,948
Furniture/ equipment	388,362	-	-	388,362	362,508	25,854
Vehicles	185,019	56,000	50,219	190,800	41,649	149,151
	<u>\$2,254,091</u>	<u>\$ 60,200</u>	<u>\$ 50,219</u>	<u>\$2,264,072</u>	<u>\$ 688,119</u>	<u>\$1,575,953</u>

NOTE 5 - COMPENSATED ABSENCES

Changes to accrued vacation are as follows:

	2015	2014
Beginning accrued compensated absences	\$ 41,000	\$ 44,000
Vacation earned	36,637	48,622
Vacation used	(44,637)	(51,622)
Ending accrued compensated absences	<u>\$ 33,000</u>	<u>\$ 41,000</u>

NOTE 6 - OPERATING LEASE

The Board leases a postage machine under an operating lease which expires in June of 2017. Total rent expense charged to operations under the lease agreement was approximately \$3,100 in 2015 and 2014. The following is a schedule of future minimum lease payments required under the lease:

Years Ending December 31:

2016	\$ 3,132
2017	1,566
	<u>\$ 4,698</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 7 - RETIREMENT PLAN

In 1997, the Board established a salary reduction, defined contribution retirement savings plan in accordance with Internal Revenue Code Section 401(k). Participating employees must contribute at least 6% of their compensation each year, up to IRS deferral limitations. Additionally, the Board makes discretionary contributions to the plan which amounted to 8.15% of employee compensation in 2015 and 2014. During 2015, voluntary contributions by employees were \$69,990 and the Board's contribution was \$59,388. During 2014, voluntary contributions by employees were \$71,650 and the Board's contribution was \$62,167. The employee's contributions are 100% vested immediately, and the Board's matching contributions are 100% vested after 5 years of credited service.

NOTE 8 - POST-EMPLOYMENT BENEFITS

Effective January 1, 2014, the Board established the *State Board of Examiners of Plumbing, Heating & Fire Sprinkler Contractors Retiree Health Care Arrangement* (the "Plan"), which is considered an other post-employment benefit plan ("OPEB") and is accounted for under the provisions of Governmental Accounting Standards Board Statement 45 ("GASB 45") *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The plan is a self-administered, single-employer plan. Significant terms of the Plan are as follows:

Employees retiring on or after age 60 and having completed 20 but less than 25 years of Board service shall be eligible to receive a defined contribution from the Board of \$150 per month for health care costs. Employees retiring on or after age 60 and having completed 25 but less than 30 years of Board service shall be eligible to receive a defined contribution from the Board of \$250 per month for health care costs. Employees retiring after completion of 30 years of Board service at any age shall be eligible to receive a defined contribution from the Board of \$400 per month for health care costs. Every five years the Board's Executive Committee will perform a market comparison and, at the discretion of the Board's Executive Committee, may increase the amount of the defined distribution to mimic the increase in the economic environment of the previous five year period, but in no case may the Board decrease the defined contribution.

The Board obtained an actuarial valuation of the Plan, resulting in an actuarial accrued liability (AAL) of \$64,054 at January 1, 2014, representing 9.5% of covered payroll, and an annual required contribution (ARC) beginning in 2014 of \$11,042. The ARC consists of normal cost plus assumed interest, and amortization of the AAL which is calculated assuming a 30-year open level annual amortization schedule. Covered payroll consists of twelve active employees. Based on the average age of the active employees, expected benefit payments will begin in the year ending December 31, 2028. A discount rate of 4.5% was used for the valuation, which represents the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits, with consideration given to the nature and mix of current and expected investments. The actuarial valuation reflects a long term perspective and involves estimates of the reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 8 - POST-EMPLOYMENT BENEFITS (Continued)

In addition to the post-employment health benefits, a retiring employee, at the time of 25 years of service, may chose to have the balance of their sick time distributed at the rate of \$.30 for each \$1 of value in time accrued. The rate of pay for each hour is the average of the hourly rate of the retiring employees' pay during the last five years of employment.

During 2014, the Board designated funds which are held in a brokerage account to be used solely for the funding of the post employment benefits. These designated investments are described in Note 3.

NOTE 9 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of Board members up to \$1,000,000 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 Board members, building and contents, commercial liability, workers compensation and employers' liability, and vehicle.

NOTE 10 - CONTINGENCIES

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 of the Board, the results of such actions during the year under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the year herein ended.

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 21, 2016, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

NOTE 12 - ACCOUNTING PRONOUNCEMENT ISSUED BUT NOT YET EFFECTIVE

In June 2015 the Governmental Accounting Standards Board (GASB) adopted Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB 45, and outlines reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. The Board has not yet determined the effects the adoption of this Statement will have on its financial statements.

The audit was conducted in approximately 85 hours at a cost of \$10,300.