

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

Board Members

BOARD MEMBERS (2018)

Jeffrey R. Dunn, Chairman

William H. Sullivan, III, Vice Chairman

Robert J. Owens, Secretary/Treasurer

William H. Eubanks

John N. Royal

Stuart F. Schwartz

Troy A. Worrell

EXECUTIVE DIRECTOR

Dale L. Dawson

LEGAL COUNSEL

John N. Fountain

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

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**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

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, 2018. The accompanying 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 two years are presented in the analysis.

Financial Highlights

During 2018, the operating revenues of the Board increased by \$24,455, or 1.2%, an insignificant amount of the total budget of \$1,977,000.

During 2018, the non-operating revenues of the Board decreased by \$12,780, or 90.9%, due to the adoption of GASB 75 in which they are included as a component of OPEB expense and Deferred Outflows of Resources based on differences between projected and actual earnings.

During 2018, the operating expenses of the Board increased by \$27,726 or 1.39%. This increase was primarily due to increases in printing and examination costs, partially offset by decreases in computer support and hearing expenses.

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 year's activity.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

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:

	2018	2017	2016
Current assets	\$ 3,082,926	\$ 3,008,888	\$ 3,074,095
Capital assets	1,529,384	1,535,879	1,473,577
Noncurrent assets	187,913	171,620	133,655
Total assets	4,800,223	4,716,387	4,681,327
Deferred outflows of resources	23,713	-	-
Current liabilities	1,528,752	1,499,698	1,546,816
Noncurrent liabilities	134,419	72,368	57,126
Total liabilities	1,663,171	1,572,066	1,603,942
Investment in capital assets	1,529,384	1,535,879	1,473,577
Unrestricted	1,631,381	1,608,442	1,503,279
Total net position	\$ 3,160,765	\$ 3,144,321	\$ 2,976,856
Operating revenues	\$ 2,065,879	\$ 2,041,424	\$ 1,974,631
Operating expenses	(2,016,273)	(1,988,547)	(1,933,097)
Operating income	49,606	52,877	41,534
Non-operating revenues	1,279	14,059	11,002
Changes in net position	\$ 50,885	\$ 66,936	\$ 52,536

Events Affecting Future Operations

New licensing software (ARLS) was implemented on October 12, 2018, replacing the former system (CAVU), which was in use for nearly two decades. All existing data in CAVU was migrated to ARLS, and all licensing and enforcement data from that date forward are in the new system. Partial payment was made on the original contract price, with approximately \$8,500 in payments remaining to be invoiced since many online features, such as sales and exam applications are not yet fully developed and functional. These will be paid for as the vendor completes the work and provides a fully functional system.

The Board implemented a Post-Employment Health Benefits Plan effective January 1, 2014. The Board made an initial contribution to fund the plan of \$75,000 in 2014, and has contributed \$25,000 annually beginning in 2015. At December 31, 2018, the actuarial measured OPEB liability of \$107,419 was well below the OPEB investment of \$187,913.

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, 2018 and 2017, 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 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, 2018 and 2017, 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 Matters

As discussed in Note 10 to the financial statements, management has restated unrestricted net position as of January 1, 2018 for the effects of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this 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, 2018 and 2017, 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, Schedule of Changes in the Total OPEB Liability, OPEB Investments, and Related Ratios on page 20 and the Schedule of Contributions to OPEB Investments on page 21; 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 25, 2019

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

Statements of Net Position

December 31, 2018 and 2017

	2018	2017
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,038,656	\$ 2,970,111
Prepaid expenses	14,923	9,430
Escrowed legal fees	29,347	29,347
Total current assets	<u>3,082,926</u>	<u>3,008,888</u>
Capital assets - net of depreciation:		
Land and building	1,355,515	1,384,346
Furniture, equipment, and software	120,118	73,932
Vehicles	53,751	77,601
Total capital assets - net of depreciation	<u>1,529,384</u>	<u>1,535,879</u>
Noncurrent assets:		
Investments	187,913	171,620
Total noncurrent assets	<u>187,913</u>	<u>171,620</u>
Total assets	<u>4,800,223</u>	<u>4,716,387</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Other postemployment benefit deferrals	23,713	-
Total deferred outflows of resources	<u>23,713</u>	<u>-</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	70,169	77,430
Payroll liabilities	5,006	-
Compensated absences - current portion	18,000	18,800
Unearned revenue	1,435,577	1,403,468
Total current liabilities	<u>1,528,752</u>	<u>1,499,698</u>
Noncurrent liabilities:		
Compensated absences - long-term portion	27,000	28,200
OPEB liability	107,419	44,168
Total noncurrent liabilities	<u>134,419</u>	<u>72,368</u>
Total liabilities	<u>1,663,171</u>	<u>1,572,066</u>
NET POSITION:		
Investment in capital assets	1,529,384	1,535,879
Unrestricted	1,631,381	1,608,442
Total net position	<u>\$ 3,160,765</u>	<u>\$ 3,144,321</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, 2018 and 2017

	2018	2017
Operating revenues:		
License fees	\$ 1,800,087	\$ 1,802,931
Examination and application fees	173,420	145,405
Late processing fees	19,745	15,100
Other operating revenues	72,627	77,988
Total operating revenues	<u>2,065,879</u>	<u>2,041,424</u>
Operating expenses:		
Salaries and wages	807,702	810,322
Payroll taxes	60,267	59,399
Retirement contributions	64,955	65,307
Employee insurance	115,944	124,601
Other postemployment benefits expense	13,804	11,042
Board members' expenses	41,735	40,069
Travel and lodging	73,816	68,026
Contracted temporary services	15,357	4,042
Telephone	14,013	12,123
Depreciation	72,672	62,766
Computer support	24,225	46,528
Building maintenance and utilities	22,767	21,533
Examination costs	121,877	96,746
Hearing expenses	19,947	29,655
Office and computer expenses	62,021	61,419
Printing	40,593	27,939
Postage and shipping	17,019	19,767
Insurance	33,479	38,763
Dues and publications	3,594	2,400
Legal, audit, and other professional fees	383,120	378,018
Continuing education expenses	7,366	8,082
Total operating expenses	<u>2,016,273</u>	<u>1,988,547</u>
Operating income	<u>49,606</u>	<u>52,877</u>
Non-operating revenues:		
Net investment income	1,279	3,906
Net realized and unrealized gain on investments	-	10,153
Total non-operating revenues	<u>1,279</u>	<u>14,059</u>
Changes in net position	<u>50,885</u>	<u>66,936</u>
Net position - beginning of year - as originally reported	3,144,321	3,077,385
Restatement of beginning net position	(34,441)	-
Net position - beginning of year - as restated	<u>3,109,880</u>	<u>3,077,385</u>
Net position - end of year	<u>\$ 3,160,765</u>	<u>\$ 3,144,321</u>

See Notes to Financial Statements

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

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from fees	\$ 2,025,361	\$ 1,922,406
Cash received from other operating revenues	72,627	77,988
Cash payments to employees for services	(1,045,862)	(1,050,617)
Cash payments to suppliers of goods and services	(747,225)	(711,636)
Cash payments for other operating expenses	(146,458)	(177,579)
Net cash provided by operating activities	<u>158,443</u>	<u>60,562</u>
Cash flows from investing activities:		
Purchase of investments	(25,000)	(25,000)
Net investment income	1,279	3,906
Investment income reinvested	-	(2,812)
Net cash used in investing activities	<u>(23,721)</u>	<u>(23,906)</u>
Cash flows from capital and financing activities:		
Acquisition of capital assets	(66,177)	(125,068)
Net cash used in capital and financing activities	<u>(66,177)</u>	<u>(125,068)</u>
Net increase (decrease) in cash and cash equivalents	68,545	(88,412)
Cash and cash equivalents - beginning of year	2,970,111	3,058,523
Cash and cash equivalents - end of year	<u>\$ 3,038,656</u>	<u>\$ 2,970,111</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 49,606	\$ 52,877
Adjustments to reconcile operating income to net cash provided by operating activities:		
Restatement of beginning net position, OPEB liability	(34,441)	-
Depreciation	72,672	62,766
Changes in assets and liabilities:		
Prepaid expenses	(5,493)	4,130
Escrowed legal fees	-	(29,347)
Other assets	-	2,012
Accounts payable	(7,261)	(8,888)
Unearned revenue	32,109	(41,030)
Payroll liabilities	5,006	-
Compensated absences	(2,000)	7,000
OPEB liability	63,251	11,042
Investments - OPEB	8,707	-
Deferred outflow of resources	(23,713)	-
Total adjustments	<u>108,837</u>	<u>7,685</u>
Net cash provided by operating activities	<u>\$ 158,443</u>	<u>\$ 60,562</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. 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, 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.

Changes in Financial Accounting and Reporting

GASB Statement No. 75 ("GASB 75"), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are not administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution

The Board implemented the requirements of GASB 75 during the year ended December 31, 2018, resulting in a restatement of beginning net position, as discussed in Note 10 to the financial statements. The required disclosures under GASB 75 are described in Note 7 to the financial statements.

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.

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, equipment, and software	3-10 years
Vehicles	8 years

**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)

Investments

Investments designated to fund OPEB liabilities consist of equities and mutual funds and are reported at fair value. Fair values are based on readily available market quotes.

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 and related to the subsequent year's renewal period are reported as unearned revenue and recognized as revenue over the one-year period to which they relate.

Compensated Absences

Board employees may accumulate up to thirty days earned vacation which is fully vested when earned. The Board approved a policy in 2013 which was amended in 2017 whereby employees with a minimum of 80 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 buy-back program. The employee can sell back a maximum of 80 hours of vacation time annually, but may not fall below 60 hours of accrued vacation time banked. The Board paid \$11,135 and \$15,663 to employees under the vacation buy-back program for the years ended December 31, 2018 and 2017, 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. In 2013, the Board approved a policy whereby employees with a minimum of 600 hours of accumulated sick leave 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 520 hours in sick leave. The Board paid \$9,637 and \$9,709 to employees under the sick leave buy-back program for the years ended December 31, 2018 and 2017, respectively. In addition, sick leave under this program of \$5,006 was accrued at December 31, 2018 and paid in 2019. Unused sick leave is not paid upon termination of employment; therefore, no accrual for sick leave has been made.

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

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 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 the following items that meet the criterion for this category: difference between expected and actual experience, changes in assumptions, and difference in projected and actual earnings that resulted from the implementation of GASB 75. 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, called 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 no items that meet the criterion for this category.

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.

NOTE 2 - DEPOSITS

The Board's deposits include cash and money market accounts on deposit with financial institutions.

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 covered by mortgage-backed securities held by the bank.

NOTE 3 - INVESTMENTS

During 2014, the Board designated investments to be used for funding the post-employment benefits, described in Note 7, 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 investment income is 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 added to the fund annually beginning in 2015.

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

NOTE 3 - INVESTMENTS (Continued)

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 SPIC insures against the loss or theft of securities as well as the failure or insolvency of the brokerage firm.

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, 2018 and 2017:

<u>December 31, 2018</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Money market funds	\$ 28,422	\$ 28,422	\$ -
Equities	152,615	156,581	3,966
Mutual funds	4,727	2,910	(1,817)
Total investments	<u>\$ 185,764</u>	<u>\$ 187,913</u>	<u>\$ 2,149</u>

<u>December 31, 2017</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Money market funds	\$ 40,259	\$ 40,259	\$ -
Equities	112,346	127,934	15,588
Mutual funds	4,727	3,427	(1,300)
Total investments	<u>\$ 157,332</u>	<u>\$ 171,620</u>	<u>\$ 14,288</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 tables set forth by level, within the fair value hierarchy, the Board's assets at fair value as of December 31, 2018 and 2017:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 156,581	\$ -	\$ -	\$ 156,581
Mutual funds	2,910	-	-	2,910
Total investments	<u>\$ 159,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,491</u>

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 127,934	\$ -	\$ -	\$ 127,934
Mutual funds	3,427	-	-	3,427
Total investments	<u>\$ 131,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,361</u>

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

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended December 31, 2018 and 2017 are as follows:

	Cost 12/31/2017	Additions	Retirements	Cost 12/31/2018	Accum. Depreciation	Net Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,250,087	-	-	1,250,087	394,572	855,515
Furniture/ equipment	448,065	66,177	-	514,242	394,124	120,118
Vehicles	190,800	-	-	190,800	137,049	53,751
	<u>\$2,388,952</u>	<u>\$ 66,177</u>	<u>\$ -</u>	<u>\$2,455,129</u>	<u>\$ 925,745</u>	<u>\$1,529,384</u>

	Cost 12/31/2016	Additions	Retirements	Cost 12/31/2017	Accum. Depreciation	Net Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,186,373	63,714	-	1,250,087	365,741	884,346
Furniture/ equipment	419,496	61,354	32,785	448,065	374,133	73,932
Vehicles	190,800	-	-	190,800	113,199	77,601
	<u>\$2,296,669</u>	<u>\$ 125,068</u>	<u>\$ 32,785</u>	<u>\$2,388,952</u>	<u>\$ 853,073</u>	<u>\$1,535,879</u>

NOTE 5 - COMPENSATED ABSENCES

Changes to accrued vacation are as follows:

	2018	2017
Beginning accrued compensated absences	\$ 47,000	\$ 40,000
Vacation earned	53,219	51,671
Vacation used	(55,219)	(44,671)
Ending accrued compensated absences	<u>\$ 45,000</u>	<u>\$ 47,000</u>

NOTE 6 - 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 2018 and 2017. During 2018, voluntary contributions by employees were \$79,043 and the Board's contribution was \$64,955. During 2017, voluntary contributions by employees were \$80,169 and the Board's contribution was \$65,307. The employee's contributions are 100% vested immediately, and the Board's matching contributions are 100% vested after 5 years of credited service.

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Notes to Financial Statements

NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS

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"). Through the year ended December 31, 2017, the Plan was accounted for under the provisions of Governmental Accounting Standards Board Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75 (GASB 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. During the year ended December 31, 2018, the Board implemented the requirements of GASB 75 resulting in a restatement of beginning net position in the accompanying Statement of Revenues, Expenses and Changes in Net Position for the year ended December 31, 2018 as noted in Note 10.

Plan Description

The plan is a self-administered, single-employer plan, and no assets are accumulated in a trust that meets the criteria of GASB Statement No. 75. Significant terms of the Plan are as follows:

Employees retiring on or after age 60 and having completed 20 years but less than 25 years of Board service shall be eligible to receive a defined contribution from the Board of \$161 per month for health care costs.

Employees retiring on or after age 60 and having completed 25 years but less than 30 years of Board service shall be eligible to receive a defined contribution from the Board of \$269 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 \$428 per month for health care costs.

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

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.

Employees covered by the terms of the benefit at December 31, 2018:

Active employees	12
Inactive employees	-
	<u>12</u>

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

NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Total OPEB Liability

At December 31, 2018, the Board reported a total OPEB liability of \$107,419. The OPEB liability was measured as of December 31, 2018 and was determined by an actuarial valuation as of December 31, 2018. See the required supplementary information, *Schedule of Changes in the Total OPEB Liability, OPEB Investments, and Related Ratios* for the current year changes in the OPEB liability.

Plan Amendments: During the year ended December 31, 2018, the Board adopted increased yearly stipend amounts. The amount of the monthly benefit is based on age and service at retirement and was increased as follows:

Age 60 with at least 20 years of service but less than 25 increased from \$150 to \$161 per month.

Age 60 with at least 25 years of service but less than 30 increased from \$250 to \$269 per month.

Any age with at least 30 years of service increased from \$400 to \$428 per month.

Assumption Changes: The mortality assumption was updated to reflect the mortality used by the North Carolina Local Governmental Employees' Retirement System in their 12/31/2017 valuation. The rate of return for the assets net of investment expenses in 2018 was -4.73%, which is less than the assumed rate of return of 4.50%.

Actuarial Assumptions: Key actuarial assumptions and methods that were used for the December 31, 2018 actuarial valuation are set forth below.

Retirement Rates - All participants are assumed to retire upon attainment of age 65 and 20 years of service.

Mortality Rates - The rates used for the December 31, 2017 North Carolina Local Governmental Employees' Retirement System Valuation. Sample rates are listed below.

Age	Pre-Retirement		Post-Retirement	
	Male	Female	Male	Female
25	0.000484	0.000173		
30	0.000452	0.000218		
35	0.000523	0.000286		
40	0.000628	0.000396		
45	0.000973	0.000657		
50	0.001686	0.001102		
55	0.002788	0.001673		
60	0.004688	0.002442		
65	0.008277	0.003696	0.012665	0.006358
70	0.013854	0.006309	0.019284	0.010166
75	0.023188	0.010768	0.03085	0.016541
80	0.038811	0.01838	0.060375	0.040419

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

NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Actuarial Assumptions (Continued):

Discount Rate - Pursuant to GASB 75, projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects: (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits), or (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). The Bond Buyer 20-Bond GO index is often cited as an appropriate benchmark. The index was 3.71% at December 31, 2018.

The expected rate of return on OPEB plan investments is 4.50%. Since the plan's fiduciary net position is projected to be sufficient to pay all future benefits, the plan's expected rate of return on OPEB plan investments of 4.50% was used as the discount rate.

Disability - None assumed.

Termination Rates - None assumed.

Per Capita Claims Costs - Not applicable. Retirees are provided a flat dollar defined contribution amount to be applied to health care costs. These defined contribution amounts are based on age and service at retirement and are shown on page 15. In addition, all participants are assumed to retire on or after attainment of age 65; thus there is no implicit rate subsidy.

Healthcare Cost Rates - The benefit is not related to the future cost of medical care.

Election Percentage - It is assumed that 100% of eligible retirees will elect to receive coverage upon retirement.

Marriage Percentage - There are no spousal benefits under the plan.

Inflation Rate - 2.25% per year

Salary Increases - 3.00% per year

Actuarial Funding Method - Entry Age Normal, level percent of payroll.

Sensitivity of the Net OPEB liability to changes in the discount rate - The following presents the Net OPEB liability, calculated using the current discount rate, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease (5.50%)	Current Discount Rate (5.50%)	1% Increase (5.50%)
(\$61,360)	(\$80,494)	(\$96,436)

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

NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Sensitivity of the Net OPEB liability to changes in the healthcare cost trend rates - not applicable as the benefit provided is a Board defined flat benefit. The Board may increase the amount of the defined distribution, but in no case may the Board decrease the defined contribution. Accordingly, there is no trend assumption.

Other Post Employment Benefit Expense

Service cost	\$ 7,443
Interest on the total OPEB liability	3,537
Plan amendments - benefit changes	7,170
Expensed portion of current-period difference between expected and actual experience in the total OPEB liability	381
Expensed portion of current-period changes in assumptions	160
Expected earnings on plan investments	(8,285)
Expensed portion of current-period difference between expected and actual earnings on plan investments	3,398
OPEB Expense	<u>\$ 13,804</u>
Discount rate	4.50%
Expected long term rate of return on assets	4.50%

Deferred Outflows of Resources Related to OPEB

At December 31, 2018, the Board reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 7,120
Changes of assumptions	2,999
Net difference between projected and actual earnings on plan investments	13,594
Total	<u>\$ 23,713</u>

Collective amounts reported as deferred outflows of resources will be recognized in expense in future years as follows:

<u>Year ended December 31,</u>	Deferred Outflows of Resources
2019	\$ 3,939
2020	3,939
2021	3,939
2022	3,939
2023	543
Thereafter	7,414
	<u>\$ 23,713</u>

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

NOTE 8 - 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 9 - 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.

During 2017, the Board was ordered to reimburse a licensee's legal expenses in the amount of \$29,347 which was paid into an escrow account with the Clerk of Court, and is presented on the accompanying Statement of Net Position as escrowed legal fees. These fees have not been recognized as expense in the current year as the Board is currently appealing this decision. As of the date the financial statements were available to be issued, the case had not yet been resolved.

NOTE 10 - RESTATEMENT

Management has restated unrestricted net position as of January 1, 2018 for the effects of implementing GASB 75, which is reported as a restatement to unrestricted net position - beginning of year in the accompanying Statement of Revenues, Expenses and Changes in Net Position for the year ended December 31, 2018. The effects of the changes as of and for the year ended December 31, 2018 are as follows:

	As Originally Reported	As Restated	Effect of Change
Unrestricted net position - beginning of year	\$3,144,321	\$ 3,109,880	\$ (34,441)

The restatement is comprised of the following balances as of January 1, 2018 arising from the implementation of GASB 75:

Net other postemployment benefit liability	\$ (34,441)
Restatement	<u><u>\$ (34,441)</u></u>

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

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 25, 2019, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

The audit was conducted in approximately 90 hours at a cost of \$12,000.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
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**Schedule of Changes in the Total OPEB Liability, OPEB Investments, and Related Ratios
Year Ended December 31, 2018**

Total OPEB Liability

Service cost	\$	7,443
Interest		3,537
Changes of benefit terms		7,170
Difference between expected and actual experience		7,501
Changes of assumptions or other inputs		3,159
Benefit payments		-
Net change in total OPEB liability		<u>28,810</u>
Total OPEB liability - beginning as restated		<u>78,609</u>
Total OPEB liability - ending	\$	<u>107,419</u>

Total OPEB Investments

Contributions, employer	\$	25,000
Net investment income		<u>(8,707)</u>
Net change in total OPEB investments		16,293
Total OPEB investments - beginning		<u>171,620</u>
Total OPEB investments - ending	\$	<u>187,913</u>

Net of OPEB liability and OPEB investments	\$	<u>(80,494)</u>
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Total OPEB investments as a percentage of the total OPEB liability	174.93%
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Covered-employee payroll	\$	766,472
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Net of OPEB liability and OPEB investments as a percentage of covered-employee payroll	-10.50%
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**Information for periods prior to the implementation of GASB 75 is unavailable and will be completed for each year going forward as information becomes available.*

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
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Schedule of Contributions to OPEB Investments
Year Ended December 31, 2018

Actuarially determined employer contributions	\$	-
Actual employer contribution	\$	25,000
Annual contribution excess	\$	(25,000)
Covered-employee payroll	\$	766,472
Actual contributions as a percentage of covered payroll		3.26%

**Information for periods prior to the implementation of GASB 75 is unavailable and will be completed for each year going forward as information becomes available.*