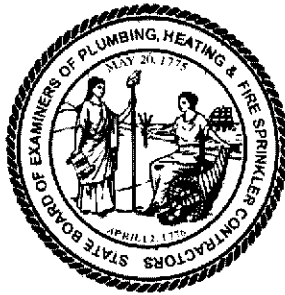


## BOARD MEMBERS

W.H. SULLIVAN III Chairman  
W.H. EUBANKS Vice-Chairman  
S.F. SCHWARTZ Secretary/Treasurer  
R.J. OWENS  
T.A. WORRELL  
M.R. STROTHER  
R.A. NUNEZ



## BOARD OFFICE

1109 Dresser Ct.  
Raleigh, NC 27609  
Phone: 919-875-3612  
Fax: 919-875-3616  
E-Mail: [information@nclicensing.org](mailto:information@nclicensing.org)  
Website: [www.nclicensing.org](http://www.nclicensing.org)  
D. L. DAWSON Executive Director

June 3, 2020

- To the North Carolina Secretary of State,
- To the North Carolina Attorney General,
- To the Office of State Budget and Management,
- To the North Carolina Joint Legislative Procedure Administrative Oversight Committee (APO),
- To Governor Roy Cooper

ANNUAL REPORT filed pursuant to the requirements of G.S. 87-20 and G.S. 93 B-2 for the year ending December 31, 2019

1. State Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors, 1109 Dresser Ct., Raleigh, North Carolina 27609

### Members of the Board:

Robert Owens, Raleigh, NC  
William H. Sullivan, III, Greensboro, NC  
William H. Eubanks, Wilmington, NC  
Robert Nunez, Raleigh, NC  
Stuart Schwartz, Raleigh, NC  
Troy Worrell, Durham, NC  
Randall Strother, Pinehurst, NC

### Officers of the Board:

Chairman	William H. Sullivan, III
Vice Chairman	William H. Eubanks
Secretary/Treasurer	Robert Owens


- |   |       |
|---|-------|
| 1a. The total number of licensees supervised by the Board .....       | 14189 |
| 2. The number of persons who applied to the board for licensure ..... | 597   |


3. The number of persons who were refused examination .....	12
4. The number of examinations given .....	1241
5. The number to whom initial licenses were issued .....	362
5a. The number of examinations failed .....	823
6. The number who applied for license by reciprocity or comity .....	0
7. The numbers who were granted licenses by reciprocity or comity .....	0
7a. The number of official complaints received involving licensed and unlicensed activities .....	830
7b. The number of disciplinary actions taken against licensees, or other actions taken against non-licensees, including injunctive relief:	
i. Disciplinary action against Licensees .....	236
ii. Actions against non-licensees, including injunctive relief .....	245
8. The number of licenses suspended or revoked .....	
1. Suspended .....	16
2. Revoked .....	7
9. The number of licenses terminated for any reason other than failure to pay the required renewal fee .....	7
9a. The number of applicants for a license and, of that number, the number granted a license .....	
1. Number of applicants for a license .....	597
2. Number granted a license .....	362
9b. The number of applicants with a conviction record and, of that number, the number granted a license, denied a license for any reason, and denied a license because of a conviction.....	
1. Number of applicants with a conviction record .....	124
2. Number granted a license .....	99

- |   |     |
|---|-----|
| 3. Number denied a license for any reason .....   | 0   |
| 4. Number denied a license because of criminal conviction ...   | 1   |
|   |     |
| 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 3<sup>rd</sup> day of June, 2020,

  
 William H. Sullivan, III  
 Chairman

  
 William H. Eubanks  
 Vice Chairman

  
 Robert Owens  
 Secretary/Treasurer

  
 Dale L. Dawson  
 Executive Director

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

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**



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

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**BOARD MEMBERS (2019)**

William H. Sullivan, III, Chairman

William H. Eubanks, Vice Chairman

Robert J. Owens, Secretary/Treasurer

Stuart F. Schwartz

Troy A. Worrell

M. Randall Strother

Roberto A. Nunez

**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, 2019**

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**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, 2019. 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 2019, the operating revenues of the Board increased by \$38,640, or 1.87%, an insignificant amount of the total budget of \$1,999,000.

During 2019, the non-operating revenues of the Board increased by \$47, or 3.67%.

During 2019, the operating expenses of the Board increased by \$70,858 or 3.51%. This increase was primarily due to increases in salaries and wages.

**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  
FIRE SPRINKLER CONTRACTORS**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2019**

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:

	2019	2018	2017
Current assets	\$ 3,151,584	\$ 3,082,926	\$3,008,888
Capital assets	1,453,035	1,529,384	1,535,879
Noncurrent assets	264,398	187,913	171,620
Total assets	4,869,017	4,800,223	4,716,387
Deferred outflows of resources	9,578	23,713	-
Current liabilities	1,511,167	1,528,752	1,499,698
Noncurrent liabilities	151,902	134,419	72,368
Total liabilities	1,663,069	1,663,171	1,572,066
Deferred inflows of resources	36,047	-	-
Investment in capital assets	1,453,035	1,529,384	1,535,879
Unrestricted	1,726,444	1,631,381	1,608,442
Total net position	\$ 3,179,479	\$ 3,160,765	\$ 3,144,321
Operating revenues	\$ 2,104,519	\$ 2,065,879	\$ 2,041,424
Operating expenses	(2,087,131)	(2,016,273)	(1,988,547)
Operating income	17,388	49,606	52,877
Non-operating revenues	1,326	1,279	14,059
Changes in net position	\$ 18,714	\$ 50,885	\$ 66,936

**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. At that time, all existing data in CAVU was migrated to ARLS, and all licensing and enforcement data from that date forward are in the new system. The year ended December 31, 2019, was the first full year of operations using the new system. The conversion addressed an issue with the former system (CAVU) where individuals who held both a Fire Sprinkler Installation and Fire Sprinkler Inspection Contractor license were not properly invoiced. A portion of the increase in licensing fees is a result of addressing this issue with the ARLS implementation. During the year ended December 31, 2019, additional enhancements to the ARLS system included online book purchases. Future planned enhancements include the ability to submit applications online.

In January 2020, management entered into a contract to replace the existing rooftop HVAC units with a mini-split system for the entire main level of the building at an approximate cost of \$161,000. The Board also plans to add additional insulation to the underside of the roof deck and the inside of the exterior walls above the ceiling height at an estimated cost of \$30,000.



**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND  
FIRE SPRINKLER CONTRACTORS**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2019**

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The Board has owned the building since 2000. Additional planned maintenance includes cleaning and painting the building exterior, installing new signage, replacing three windows, upgrading the exterior parking lot lighting with high efficiency LED fixtures, replacing the 40-year old parking lot asphalt, and landscaping to control drainage and improve the overall appearance of the property. The Board estimates the cost of these planned improvements at \$100,000. Funds for all property improvements will be taken from the Board's reserve.

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. The Board added \$25,000 to the fund annually beginning in 2015 through 2018. During the year ended December 31, 2019, the Board added \$10,000 to the fund. At December 31, 2019, the actuarial measured OPEB liability of \$121,302 was well below the OPEB investment of \$264,398.

**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, 2019 and 2018, 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, 2019 and 2018, 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 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, 2019 and 2018, 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 – 3; 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 14, 2020

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

**Statements of Net Position**

**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 3,104,309	\$ 3,038,656
Prepaid expenses	17,928	14,923
Escrowed legal fees	29,347	29,347
Total current assets	<u>3,151,584</u>	<u>3,082,926</u>
Capital assets - net of depreciation:		
Land and building	1,326,684	1,355,515
Furniture, equipment, and software	95,323	120,118
Vehicles	31,028	53,751
Total capital assets - net of depreciation	<u>1,453,035</u>	<u>1,529,384</u>
Noncurrent assets:		
Investments	264,398	187,913
Total noncurrent assets	<u>264,398</u>	<u>187,913</u>
Total assets	<u>4,869,017</u>	<u>4,800,223</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Other postemployment benefit deferrals	9,578	23,713
Total deferred outflows of resources	<u>9,578</u>	<u>23,713</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	63,194	70,169
Payroll liabilities	-	5,006
Compensated absences - current portion	20,400	18,000
Unearned revenue	1,427,573	1,435,577
Total current liabilities	<u>1,511,167</u>	<u>1,528,752</u>
Noncurrent liabilities:		
Compensated absences - long-term portion	30,600	27,000
OPEB liability	121,302	107,419
Total noncurrent liabilities	<u>151,902</u>	<u>134,419</u>
Total liabilities	<u>1,663,069</u>	<u>1,663,171</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Other postemployment benefit deferrals	36,047	-
Total deferred inflows of resources	<u>36,047</u>	<u>-</u>
<b>NET POSITION:</b>		
Investment in capital assets	1,453,035	1,529,384
Unrestricted	1,726,444	1,631,381
Total net position	<u>\$ 3,179,479</u>	<u>\$ 3,160,765</u>

*See Notes to Financial Statements*

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND  
FIRE SPRINKLER CONTRACTORS**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating revenues:		
License fees	\$ 1,850,476	\$ 1,800,087
Examination and application fees	145,400	173,420
Late processing fees	16,400	19,745
Other operating revenues	92,243	72,627
Total operating revenues	<u>2,104,519</u>	<u>2,065,879</u>
Operating expenses:		
Salaries and wages	902,705	807,702
Payroll taxes	67,580	60,267
Retirement contributions	73,490	64,955
Employee insurance	116,321	115,944
Other postemployment benefits expense	(2,420)	13,804
Board members' expenses	50,292	41,735
Travel and lodging	64,899	73,816
Contracted temporary services	-	15,357
Telephone	10,175	14,013
Depreciation	83,833	72,672
Computer support	31,540	24,225
Building maintenance and utilities	22,983	22,767
Examination costs	87,855	121,877
Hearing expenses	21,548	19,947
Office and computer expenses	60,165	62,021
Printing	57,493	40,593
Postage and shipping	16,658	17,019
Insurance	27,380	33,479
Dues and publications	4,694	3,594
Legal, audit, and other professional fees	383,427	383,120
Continuing education expenses	6,513	7,366
Total operating expenses	<u>2,087,131</u>	<u>2,016,273</u>
Operating income	<u>17,388</u>	<u>49,606</u>
Nonoperating revenues:		
Net investment income	1,326	1,279
Total nonoperating revenues	<u>1,326</u>	<u>1,279</u>
Changes in net position	<u>18,714</u>	<u>50,885</u>
Net position - beginning of year - as originally reported	3,160,765	3,144,321
Restatement of beginning net position	-	(34,441)
Net position - beginning of year - as restated	<u>3,160,765</u>	<u>3,109,880</u>
Net position - end of year	<u>\$ 3,179,479</u>	<u>\$ 3,160,765</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND  
FIRE SPRINKLER CONTRACTORS**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Cash received from fees	\$ 2,004,272	\$ 2,025,361
Cash received from other operating revenues	92,243	72,627
Cash payments to employees for services	(1,159,102)	(1,045,862)
Cash payments to suppliers of goods and services	(707,656)	(717,878)
Cash payments for other operating expenses	(147,946)	(175,805)
Net cash provided by operating activities	<u>81,811</u>	<u>158,443</u>
Cash flows from investing activities:		
Purchase of investments	(10,000)	(25,000)
Net investment income	1,326	1,279
Net cash used in investing activities	<u>(8,674)</u>	<u>(23,721)</u>
Cash flows from capital and financing activities:		
Acquisition of capital assets	(7,484)	(66,177)
Net cash used in capital and financing activities	<u>(7,484)</u>	<u>(66,177)</u>
Net increase in cash and cash equivalents	65,653	68,545
Cash and cash equivalents - beginning of year	3,038,656	2,970,111
Cash and cash equivalents - end of year	<u>\$ 3,104,309</u>	<u>\$ 3,038,656</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 17,388	\$ 49,606
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other postemployment benefits expense	(2,420)	13,804
Depreciation	83,833	72,672
Changes in assets and liabilities:		
Prepaid expenses	(3,005)	(5,493)
Accounts payable	(6,975)	(7,261)
Unearned revenue	(8,004)	32,109
Payroll liabilities	(5,006)	5,006
Compensated absences	6,000	(2,000)
Total adjustments	<u>64,423</u>	<u>108,837</u>
Net cash provided by operating activities	<u>\$ 81,811</u>	<u>\$ 158,443</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**

During 2019, the Board adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, issued in March 2018 by the Governmental Accounting Standards Board and effective for reporting periods beginning after June 15, 2018. GASB 88 had no effect on the amounts previously reported or disclosed in these 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

**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 nonoperating revenue or expense for the period.



**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)**

**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 \$14,401 and \$11,135 to employees under the vacation buy-back program for the years ended December 31, 2019 and 2018, 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 \$16,227 and \$9,637 to employees under the sick leave buy-back program for the years ended December 31, 2019 and 2018, respectively. 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.

**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 and changes in assumptions, resulting 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 net difference between projected and actual earnings on plan investments resulting from the implementation of GASB 75 meets the criterion for this category.

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

**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.

**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 additional funds added annually. The annual amount is determined by the Board based on the estimated OPEB liability, described in Note 7, and the fair value of the plan's investments. The Board added \$25,000 to the fund annually beginning in 2015 through 2018. During the year ended December 31, 2019, the Board added \$10,000 to the fund.

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**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, 2019 and 2018:

December 31, 2019	Cost	Fair Value	Unrealized Gain (Loss)
Money market funds	\$ 28,366	\$ 28,366	\$ -
Equities	167,157	233,301	66,144
Mutual funds	4,727	2,731	(1,996)
Total investments	<u>\$ 200,250</u>	<u>\$ 264,398</u>	<u>\$ 64,148</u>
December 31, 2018	Cost	Fair Value	Unrealized Gain (Loss)
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>

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, 2019 and 2018:

December 31, 2019	Level 1	Level 2	Level 3	Total
Equities	\$ 233,301	\$ -	\$ -	\$ 233,301
Mutual funds	2,731	-	-	2,731
Total investments	<u>\$ 236,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,032</u>
December 31, 2018	Level 1	Level 2	Level 3	Total
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>

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**NOTE 4 - CAPITAL ASSETS**

Changes in capital assets for the years ended December 31, 2019 and 2018 are as follows:

	Cost 12/31/2018	Additions	Retirements	Cost 12/31/2019	Accum. Depreciation	Net Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,250,087	-	-	1,250,087	423,403	826,684
Furniture/ equipment	514,242	7,484	-	521,726	426,403	95,323
Vehicles	190,800	-	-	190,800	159,772	31,028
	<u>\$2,455,129</u>	<u>\$ 7,484</u>	<u>\$ -</u>	<u>\$2,462,613</u>	<u>\$ 1,009,578</u>	<u>\$1,453,035</u>

	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>

**NOTE 5 - COMPENSATED ABSENCES**

Changes to accrued vacation are as follows:

	2019	2018
Beginning accrued compensated absences	\$ 45,000	\$ 47,000
Vacation earned	56,306	53,219
Vacation used	(50,306)	(55,219)
Ending accrued compensated absences	<u>\$ 51,000</u>	<u>\$ 45,000</u>
Current portion	<u>\$ 20,400</u>	<u>\$ 18,000</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 2019 and 2018. During 2019, voluntary contributions by employees were \$80,731, and the Board's contribution was \$73,490. During 2018, voluntary contributions by employees were \$79,043, and the Board's contribution was \$64,955. 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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**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.

**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, 2019:

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

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**NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)**

**Total OPEB Liability**

At December 31, 2019, the Board reported a total OPEB liability of \$121,302. The OPEB liability was measured as of December 31, 2019. The OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to December 31, 2019. 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.

*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 2019 was 34.46%, which is more 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

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**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 2.74% at December 31, 2019.

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 (3.50%)	Current Discount Rate (4.50%)	1% Increase (5.50%)
(\$121,489)	(\$143,096)	(\$161,099)

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND  
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**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	\$ 9,049
Interest on the total OPEB liability	4,834
Expected earnings on plan investments	(8,681)
Expensed portion of current-period difference between expected and actual earnings on plan investments	(11,561)
Recognition of deferred outflows	3,939
OPEB Expense	<u>\$ (2,420)</u>
Discount rate	4.50%
Expected long term rate of return on assets	4.50%

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At December 31, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,739	\$ -
Changes of assumptions	2,839	-
Net difference between projected and actual earnings on plan investments	-	(36,047)
Total	<u>\$ 9,578</u>	<u>\$ (36,047)</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	Deferred Inflows of Resources
2020	\$ 541	\$ (8,163)
2021	541	(8,163)
2022	541	(8,163)
2023	541	(11,558)
2024	541	-
Thereafter	6,873	-
	<u>\$ 9,578</u>	<u>\$ (36,047)</u>



**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND  
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**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 - COMMITMENTS**

In January 2020, management entered into a contract to replace the existing rooftop HVAC units with a mini-split system for the entire main level of the building at an approximate cost of \$161,000.

**NOTE 11 - SUBSEQUENT EVENTS**

Management of the Board evaluated subsequent events through April 14, 2020, 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 \$12,300.

**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, 2019**

	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 9,049	\$ 7,443
Interest	4,834	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>13,883</u>	<u>28,810</u>
Total OPEB liability - beginning as restated	<u>107,419</u>	<u>78,609</u>
Total OPEB liability - ending	<u>\$ 121,302</u>	<u>\$ 107,419</u>
<b>Total OPEB Investments</b>		
Contributions, employer	\$ 10,000	\$ 25,000
Net investment income	<u>66,485</u>	<u>(8,707)</u>
Net change in total OPEB investments	<u>76,485</u>	<u>16,293</u>
Total OPEB investments - beginning	<u>187,913</u>	<u>171,620</u>
Total OPEB investments - ending	<u>\$ 264,398</u>	<u>\$ 187,913</u>
Net of OPEB liability and OPEB investments	<u>\$ (143,096)</u>	<u>\$ (80,494)</u>
Total OPEB investments as a percentage of the total OPEB liability	217.97%	174.93%
Covered-employee payroll	\$ 766,472	\$ 766,472
Net of OPEB liability and OPEB investments as a percentage of covered-employee payroll	-18.67%	-10.50%

*\*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, 2019**

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	<u>2019</u>	<u>2018</u>
Actuarially determined employer contributions	\$ -	\$ -
Actual employer contribution	\$ 10,000	\$ 25,000
Annual contribution excess	\$ (10,000)	\$ (25,000)
Covered-employee payroll	\$ 766,472	\$ 766,472
Actual contributions as a percentage of covered payroll	1.30%	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.*