

- **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, 2020

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	Stuart Schwartz

1a. The total number of licensees supervised by the Board	15211
2. The number of persons who applied to the board for licensure	649
3. The number of persons who were refused examination	5
4. The number of examinations given	1034
5. The number to whom initial licenses were issued	364

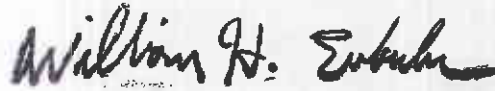
5a. The number of examinations failed	662
6. The number who applied for license by reciprocity or comity	0
7. The numbers who were granted licenses by reciprocity or comity	0
7a. The number of official complaints received involving licensed and unlicensed activities	632
7b. The number of disciplinary actions taken against licensees, or other actions taken against non-licensees, including injunctive relief:	
i. Disciplinary action against Licensees	211
ii. Actions against non-licensees, including injunctive relief	230
8. The number of licenses suspended or revoked	
1. Suspended	25
2. Revoked	17
9. The number of licenses terminated for any reason other than failure to pay the required renewal fee	17
9a. The number of applicants for a license and, of that number, the number granted a license	
1. Number of applicants for a license	649
2. Number granted a license	364
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	141
2. Number granted a license	117
3. Number denied a license for any reason	5
4. Number denied a license because of criminal conviction ...	2
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.

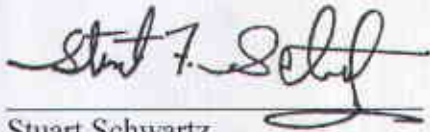
Respectfully submitted, this the 30th day of April, 2021,



William H. Sullivan, III
Chairman



William H. Eubanks
Vice Chairman



Stuart Schwartz
Secretary/Treasurer



Dale L. Dawson
Executive Director

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

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020



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

BOARD MEMBERS (2020)

William H. Sullivan, III, Chairman

William H. Eubanks, Vice Chairman

Stuart F. Schwartz, Secretary/Treasurer

Robert J. Owens

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, 2020

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, 2020. 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 2020, the operating revenues of the Board decreased by \$91,969 or 4.37%, primarily due to a decrease in license and exam fees.

During 2020, the non-operating revenues of the Board decreased by \$18,937, or 27.93%.

During 2020, the operating expenses of the Board increased by \$23,412 or 1.10%. This increase was primarily due to increases in legal fees and salaries and wages, offset by a decrease in travel and printing 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
FIRE SPRINKLER CONTRACTORS**
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2020

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

	<u>2020</u>	<u>2019 *</u>
Current assets	\$ 3,623,795	\$ 3,415,982
Capital assets	1,591,482	1,453,035
Total assets	<u>5,215,277</u>	<u>4,869,017</u>
Deferred outflows of resources	<u>63,667</u>	47,353
Current liabilities	1,913,418	1,511,167
Noncurrent liabilities	233,595	191,696
Total liabilities	<u>2,147,013</u>	<u>1,702,863</u>
Investment in capital assets	1,591,482	1,453,035
Unrestricted	1,540,449	1,760,472
Total net position	<u>\$ 3,131,931</u>	<u>\$ 3,213,507</u>
Operating revenues	\$ 2,012,550	\$ 2,104,519
Operating expenses	(2,143,000)	(2,119,588)
Operating loss	<u>(130,450)</u>	<u>(15,069)</u>
Non-operating revenues	48,874	67,811
Changes in net position	<u>\$ (81,576)</u>	<u>\$ 52,742</u>

* As described in Note 10, the Board has restated unrestricted net position as of January 1, 2020 for the effect of an accounting error reflected in the prior year's financial statements. The effect on the change in net assets is included in operating expenses and non-operating revenues for the year ended December 31, 2019.

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, 2020, additional enhancements to the ARLS system included making more services available online and with online payment in order to address issues with unreliable mail delivery and modified office staff schedules due to the pandemic. Future planned enhancements in 2021 include the ability to submit applications online.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2020

Events Affecting Future Operations (Continued)

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. This included removal of the five existing rooftop HVAC units and their roof curbs, and repair of the metal roof decking, insulation and rubber roofing membrane after their removal.

The Board has owned the building since 2000. Additional projects that were anticipated beginning in 2020 included cleaning and painting the building exterior, installing new signage, replacing several damaged 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. All projects were put on hold due to the pandemic, and some are anticipated to be completed in 2021, including the cleaning/painting of the building exterior, the exterior lighting replacement, and possibly the exterior signage. The Board estimates the total 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 designated investments to be used for funding the plan and made an initial investment of \$75,000 in 2014. The Board added \$25,000 to the fund annually beginning in 2015 through 2018 and \$10,000 in 2019. During the year ended December 31, 2020, the Board added \$0 to the fund. At December 31, 2020, the Board's investments totaled \$314,830 and the actuarial measured OPEB liability totaled \$199,395.

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 statement of net position as of December 31, 2020, 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, 2020, and its changes in financial position and cash flows for the year 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, 2020, nor the changes in its financial position and its cash flows thereof for the year 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; and the Schedule of Changes in the Total OPEB Liability and Related Ratios on page 19, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 12, 2021

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

**Statement of Net Position
December 31, 2020**

ASSETS:

Current assets:

Cash and cash equivalents	\$ 3,304,311
Prepaid expenses	4,654
Investments	314,830
Total current assets	<u>3,623,795</u>

Capital assets - net of depreciation:

Land and building	1,461,340
Furniture, equipment, and software	70,451
Vehicles	59,691
Total capital assets - net of depreciation	<u>1,591,482</u>
Total assets	<u>5,215,277</u>

DEFERRED OUTFLOWS OF RESOURCES:

Other postemployment benefit deferrals	63,667
Total deferred outflows of resources	<u>63,667</u>

LIABILITIES:

Current liabilities:

Accounts payable	104,415
Compensated absences - current portion	22,800
Unearned revenue	1,786,203
Total current liabilities	<u>1,913,418</u>

Noncurrent liabilities:

Compensated absences - long-term portion	34,200
OPEB liability	199,395
Total noncurrent liabilities	<u>233,595</u>
Total liabilities	<u>2,147,013</u>

NET POSITION:

Investment in capital assets	1,591,482
Unrestricted	1,540,449
Total net position	<u>\$ 3,131,931</u>

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

**Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2020**

Operating revenues:	
License fees	\$ 1,787,607
Examination and application fees	127,010
Late processing fees	7,995
Other operating revenues	89,938
Total operating revenues	<u>2,012,550</u>
Operating expenses:	
Salaries and wages	917,456
Payroll taxes	68,988
Retirement contributions	74,284
Employee insurance	114,716
Other postemployment benefits expense	21,985
Board members' expenses	49,941
Travel and lodging	45,382
Telephone	11,301
Depreciation	80,077
Computer support	41,137
Building maintenance and utilities	28,071
Examination costs	91,565
Hearing expenses	22,668
Office and computer expenses	69,485
Printing	43,451
Postage and shipping	14,948
Insurance	30,719
Dues and publications	5,409
Legal, audit, and other professional fees	410,547
Continuing education expenses	870
Total operating expenses	<u>2,143,000</u>
Operating loss	<u>(130,450)</u>
Nonoperating revenues:	
Interest and dividends, net of fees	4,143
Net realized and unrealized gain on investments	47,237
Net loss on sale of assets	(2,506)
Total nonoperating revenues	<u>48,874</u>
Changes in net position	<u>(81,576)</u>
Net position - beginning of year - as originally reported	3,179,479
Restatement of beginning net position	<u>34,028</u>
Net position - beginning of year - as restated	<u>3,213,507</u>
Net position - end of year	<u>\$ 3,131,931</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Statement of Cash Flows
Year Ended December 31, 2020

Cash flows from operating activities:	
Cash received from fees	\$ 2,281,242
Cash received from other operating revenues	89,938
Cash payments to employees for services	(1,169,444)
Cash payments to suppliers of goods and services	(657,382)
Cash payments for other operating expenses	(124,270)
Net cash provided by operating activities	<u>420,084</u>
Cash flows from investing activities:	
Net proceeds from sale of capital assets	11,228
Purchase of investments	(16,167)
Sale of investments	12,972
Net investment income	4,143
Net cash provided by investing activities	<u>12,176</u>
Cash flows from capital and financing activities:	
Acquisition of capital assets	(232,258)
Net cash used in capital and financing activities	<u>(232,258)</u>
Net increase in cash and cash equivalents	200,002
Cash and cash equivalents - beginning of year	<u>3,104,309</u>
Cash and cash equivalents - end of year	<u>\$ 3,304,311</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (130,450)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Other postemployment benefits expense	21,985
Depreciation	80,077
Changes in assets and liabilities:	
Prepaid expenses	13,274
Escrowed legal fees	29,347
Accounts payable	41,221
Unearned revenue	358,630
Compensated absences	6,000
Total adjustments	<u>550,534</u>
Net cash provided by operating activities	<u>\$ 420,084</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.

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 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.

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.

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

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

Compensated Absences

Board employees may accumulate up to thirty days earned vacation which is fully vested when earned. The Board approved a 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 \$15,473 to employees under the vacation buy-back program for the year ended December 31, 2020.

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 \$16,200 to employees under the sick leave buy-back program for the year ended December 31, 2020. 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 of Resources

In addition to assets, the Statement of Net Position includes 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: Other postemployment benefit deferrals which includes differences between expected and actual experience and changes in assumptions, as described in Note 7.

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.

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

Notes to Financial Statements

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 post-employment benefits, 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. Additional transfers to the fund is determined by the Board annually. The Board added \$25,000 to the fund annually beginning in 2015 through 2018 and \$10,000 in 2019. During the year ended December 31, 2020, the Board added \$0 to the fund.

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, 2020:

	Cost	Fair Value	Unrealized Gain (Loss)
Money market funds	\$ 44,532	\$ 44,532	\$ -
Equities	154,263	270,298	116,035
Total investments	<u>\$ 198,795</u>	<u>\$ 314,830</u>	<u>\$ 116,035</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.

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

NOTE 3 - INVESTMENTS (Continued)

The following tables set forth by level, within the fair value hierarchy, the Board's assets at fair value as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Equities	\$ 270,298	\$ -	\$ -	\$ 270,298
Total investments	<u>\$ 270,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,298</u>

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the year ended December 31, 2020 are as follows:

	Cost 12/31/2019	Additions	Retirements	Cost 12/31/2020	Accum. Depreciation	Net Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,250,087	164,515	875	1,413,727	452,387	961,340
Furniture/ equipment	521,726	7,843	-	529,569	459,118	70,451
Vehicles	190,800	59,900	74,035	176,665	116,974	59,691
	<u>\$2,462,613</u>	<u>\$ 232,258</u>	<u>\$ 74,910</u>	<u>\$2,619,961</u>	<u>\$ 1,028,479</u>	<u>\$1,591,482</u>

NOTE 5 - COMPENSATED ABSENCES

Changes to accrued vacation for the year ended December 31, 2020 are as follows:

Beginning accrued compensated absences	\$ 51,000
Vacation earned	57,677
Vacation used	(51,677)
Ending accrued compensated absences	<u>\$ 57,000</u>
Current portion	<u>\$ 22,800</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 8.10% of employee compensation during the year ended December 31, 2020. During 2020, voluntary contributions by employees were \$84,441, and the Board's contribution was \$74,284. The employee's contributions are 100% vested immediately, and the Board's matching contributions are 100% vested after 5 years of credited service.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
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"). The Plan is accounted for under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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.

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, 2020:

Active employees	12
Retired participants and beneficiaries	-
	<u>12</u>

Total OPEB Liability

At December 31, 2020, the Board reported a total OPEB liability of \$199,395. The OPEB liability was measured as of December 31, 2020 and was determined by an actuarial valuation as of December 31, 2020. See the required supplementary information, *Schedule of Changes in the Total OPEB Liability and Related Ratios* for the current year changes in the OPEB liability.

Assumption Changes : The discount rate was lowered from 2.74% to 2.12% which resulted in an outflow of resources.

Actuarial Assumptions: Key actuarial assumptions and methods that were used for the December 31, 2020 actuarial valuation are set forth below.

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

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

NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Mortality Rates - The rates used for the December 31, 2019 North Carolina Local Governmental Employees' Retirement System Valuation. Sample rates are listed below.

Age	Pre-Retirement		Post-Retirement	
	Male	Female	Male	Female
25	0.0484%	0.0173%		
30	0.0452%	0.0218%		
35	0.0523%	0.0286%		
40	0.0628%	0.0396%		
45	0.0973%	0.0657%		
50	0.1686%	0.1102%		
55	0.2788%	0.1673%		
60	0.4688%	0.2442%		
65	0.8277%	0.3696%	1.2665%	0.6358%
70	1.3854%	0.6309%	1.9284%	1.0166%
75	2.3188%	1.0768%	3.0850%	1.6541%
80	3.8811%	1.8380%	6.0375%	4.0419%

Discount Rate - Pursuant to GASB 75, for unfunded plans the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The Bond Buyer 20-Bond GO index is often cited as an appropriate benchmark. That index was 2.12% on December 31, 2020.

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. In addition, all participants are assumed to retire on or after attainment of age 65; thus there is no implicit rate subsidy.

Medical Trend - 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.

**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 discount rate - The following presents the Total OPEB liability, calculated using the current discount rate, as well as what the Total 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 (1.12%)	Current Discount Rate (2.12%)	1% Increase (3.12%)
<u>\$235,938</u>	<u>\$199,395</u>	<u>\$169,317</u>

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 dollar 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	\$ 13,880
Interest on the total OPEB liability	4,414
Expensed portion of current-period difference between expected and actual experience in the total OPEB liability	39
Expensed portion of current-period difference in assumptions	1,092
Recognition of deferred outflows	2,560
OPEB Expense	<u>\$ 21,985</u>

Deferred Outflows of Resources Related to OPEB

At December 31, 2020, the Board reported **deferred outflows of resources** related to other post employment benefits from the following sources:

Differences between expected and actual experience	\$ 7,004
Changes of assumptions	56,663
Total	<u>\$ 63,667</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>	
2021	\$ 3,691
2022	3,691
2023	3,691
2024	3,691
2025	3,691
Thereafter	45,212
	<u>\$ 63,667</u>

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

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic, which has caused significant economic issues and disruptions to businesses and organizations throughout the world. The extent of the impact of COVID-19 on the Board's financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on the dental industry, all of which are uncertain and cannot be predicted. At this point, the extent of which COVID-19 may impact the Board's financial position, operations and cash flows is uncertain.

NOTE 10 - RESTATEMENT

The Board has restated unrestricted net position as of January 1, 2020 for the effect of an accounting error reflected in the prior year's financial statements. The OPEB liability and related deferred outflows and inflows of resources were calculated with the Board's designated investments as a plan asset; however, the investments are not accumulated in a trust that meets GASB 75 criteria. The effects of the changes as of and for the year ended December 31, 2019 are as follows:

	As Originally Reported	As Restated	Effect of Change
Unrestricted net position - beginning of year	\$3,179,479	\$ 3,213,507	\$ 34,028

The restatement had the following effect on the change in net assets for the year ended December 31, 2019 as follows:

Increase in deferred outflows of resources, other postemployment benefit deferrals	\$ 37,775
Decrease in deferred inflows of resources, other postemployment benefit deferrals	36,047
Increase in OPEB liability	(39,794)
Changes in net position	<u>\$ 34,028</u>

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

NOTE 11 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2020, the Board utilized a board member's company for the purchase and installation of a hot water heater totaling \$2,628. The Board has a conflict of interest policy in effect to deal with these types of transactions.

NOTE 12 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 12, 2021, 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 100 hours at a cost of \$14,900.

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

**Schedule of Changes in the Total OPEB Liability and Related Ratios
Year Ended December 31, 2020**

	2020	2019****	2018
Total OPEB Liability			
Service cost	\$ 13,880	\$ 9,049	\$ 7,443
Interest	4,414	4,834	3,537
Benefit changes	-	-	7,170
Difference between expected and actual experience	685	-	7,501
Assumption changes	19,320	39,794	3,159
Benefit payments	-	-	-
Refunds of contributions	-	-	-
Net change in total OPEB liability	<u>38,299</u>	<u>53,677</u>	<u>28,810</u>
Total OPEB liability - beginning	<u>161,096</u>	<u>107,419</u>	<u>78,609</u>
Total OPEB liability - ending	<u>\$ 199,395</u>	<u>\$ 161,096</u>	<u>\$ 107,419</u>
Covered-employee payroll	\$ 881,408	\$ 766,472	\$ 766,472
Net of OPEB liability as a percentage of covered-employee payroll	22.62%	21.02%	14.01%

*** Restatement of OPEB liability included in assumption changes

*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.



Bernard Robinson & Company, L.L.P.

April 12, 2021

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

We have audited the financial statements of the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors (the "Board") for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 17, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted during the fiscal year ended December 31, 2020. The prior year net position was restated due to an accounting error. The OPEB liability and related deferred outflows and inflows of resources were incorrectly calculated using the Board's designated investments as a plan asset; however, the investments are not accumulated in a trust meeting the criteria of GASB 75. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of depreciation which is based on the estimated useful lives of capitalized assets.
- The fair value measurements in Note 3 to the financial statements, which requires judgment by management related to the valuation level within the fair value hierarchy.
- Management's estimate of the current portion of the accrued vacation liability is based on an estimated 40% of the total liability.

- Management's estimates of the other postemployment benefit (OPEB) liability, OPEB deferred outflows, OPEB deferred inflows, and OPEB expense for other post-employment benefits, disclosed in Note 7, are based on an actuarial report.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such material misstatements, as attached.

Disagreements with Management

For the purpose of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 12, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, and the Schedule of Changes in the Total OPEB Liability and Related Ratios, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors and management of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Bernard Robinson & Company, L.L.P.

BERNARD ROBINSON & COMPANY, L.L.P.

Client: **4665.0 - State Board of Examiners of Plumbing, Heating, and Fire**
 Engagement: **Audit 2020 - State Board of Plumbing, Heating and Fire Sprinkler Contractors**
 Period Ending: **12/31/2020**
 Trial Balance: **1305 - TB**
 Workpaper: **1320 - Adjusting Journal Entries Report**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To record investment activity			
134	Pershing Brokerage Account	50,432.00	
BRC441	Realized (gain) loss on investments	4,650.00	
405	Interest		3,195.00
BRC440	Unrealized (gain) loss on investments		51,887.00
Total		55,082.00	55,082.00
Adjusting Journal Entries JE # 2			
To record merchant fee payable			
503A	Merchant Fees	7,080.00	
320	Accounts payable		7,080.00
Total		7,080.00	7,080.00
Adjusting Journal Entries JE # 3			
To record fixed asset disposals, additions, and adjust accumulated depreciation			
142	Capital Assets- Office & Vehicl	67,742.00	
145	Capital Assets- Building/Land	164,515.00	
148	Less Accumulated Depreciation	61,177.00	
408	Capital (Fixed) Asset Sales	13,733.00	
562	Depreciation	80,077.00	
142	Capital Assets- Office & Vehicl		74,910.00
148	Less Accumulated Depreciation		80,077.00
502D	Auto Repair & Service		3,743.00
517	Purchase of Capital Assets		228,514.00
Total		387,244.00	387,244.00
Adjusting Journal Entries JE # 4			
To adjust accrued vacation			
531d	Gross Wages	6,000.00	
327	Accrued Vacation		6,000.00
Total		6,000.00	6,000.00
Adjusting Journal Entries JE # 5			
To restate OPEB as of 12/31/19 and adjust for current year changes			
180	Deferred Outflows - OPEB	54,089.00	
BRC380	Deferred Inflows - OPEB	36,047.00	
BRC540	OPEB expense	21,985.00	
330	OPEB Liability		78,093.00
BRC200	Beginning Net Position		34,028.00
Total		112,121.00	112,121.00