

**NORTH CAROLINA STATE  
BOARD OF BARBER EXAMINERS**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2022 AND 2021**



# NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

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# **NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

## **Management's Discussion and Analysis**

### **For The Fiscal Year Ended June 30, 2022**

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The following is a discussion and analysis of the North Carolina State Board of Barber Examiners' (the "Board") financial performance for the fiscal year ended June 30, 2022. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous two years are presented in the analysis.

#### **Financial Highlights**

The operating revenues of the Board increased by \$27,047 or 3.47%, primarily due to an increase in registered certificates.

The operating expenses of the Board increased by \$32,843 or 5.33%, primarily due to salaries and computer services. These increases were offset by decreases in OPEB-related expenses in the current year.

The deficit in unrestricted net position at June 30, 2022 reflects the reporting requirements under GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which was effective for fiscal years beginning after June 15, 2017. The Board participates in two Other Postemployment Benefit ("OPEB") plans administered by the State of North Carolina: the Retiree Health Benefit Fund ("RHBF") and the Disability Income Plan of North Carolina ("DIPNC"). The reporting requirement reflects the liability recognized for the Board's proportionate share of the collective net RHBF liability, which was \$380,225 as of June 30, 2022, and \$331,839 as of June 30, 2021. See Footnote 6 to the financial statements for further discussion.

#### **Overview of the Basic 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).

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Management's Discussion and Analysis**  
**For The Fiscal Year Ended June 30, 2022**

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**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 positions 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.

The following presents condensed financial information on the operations of the Board as of and for the year ended June 30:

	2022	Restated 2021	2020
	<u>          </u>	<u>          </u>	<u>          </u>
Current assets	\$ 952,799	\$ 924,716	\$ 730,882
Noncurrent assets	234	610	578
Capital assets - net of depreciation	<u>128,443</u>	<u>155,879</u>	<u>37,568</u>
Total assets	<u>1,081,476</u>	<u>1,081,205</u>	<u>769,028</u>
Deferred outflows of resources	<u>167,750</u>	<u>115,225</u>	<u>112,382</u>
Current liabilities	424,801	449,166	300,673
Noncurrent liabilities	<u>544,766</u>	<u>618,351</u>	<u>621,638</u>
Total liabilities	<u>969,567</u>	<u>1,067,517</u>	<u>922,311</u>
Deferred inflows of resources	<u>289,586</u>	<u>297,247</u>	<u>299,970</u>
Net position:			
Investment in capital assets	49,317	55,545	37,568
Unrestricted	<u>(59,244)</u>	<u>(223,879)</u>	<u>(378,439)</u>
Total net position (deficit)	<u>\$ (9,927)</u>	<u>\$ (168,334)</u>	<u>\$ (340,871)</u>
Operating revenues	\$ 806,560	\$ 779,513	\$ 701,372
Operating expenses	<u>649,443</u>	<u>616,600</u>	<u>595,122</u>
Operating income	<u>157,117</u>	<u>162,913</u>	<u>106,250</u>
Non-operating revenues	<u>1,290</u>	<u>11,659</u>	<u>12,783</u>
Changes in net position	<u>\$ 158,407</u>	<u>\$ 174,572</u>	<u>\$ 119,033</u>

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Management's Discussion and Analysis**  
**For The Fiscal Year Ended June 30, 2022**

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**Events Affecting Future Operations**

The Board's long-term financial outlook has improved substantially, following spending cuts made in fiscal year 2016. These cuts have had a negative impact on operations, which the Board is addressing by increasing its online transactions and requesting authorization from the General Assembly to increase fees. The Board believes modest fee increases, perhaps based on the Consumer Price Index, would allow it to continue building on its financial health while improving efficiency and operations.

The General Assembly passed legislation (Session Law 2022-72) that will move the Board of Electrolysis Examiners under the Board of Barber Examiners, forming a newly merged board. The merger, which will be effective January 1, 2023, will affect operations by increasing the number of licensed programs the Board administers. However, the Board does not anticipate any negative financial impact from the merger because the Board of Electrolysis Examiners has an existing revenue stream and fund balance.

**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 and expends. If you have any questions about this report or need additional information, contact the North Carolina State Board of Barber Examiners, 7001 Mail Service Center, Raleigh, NC 27699-7000.



## **Independent Auditor's Report**

Members of the Board  
North Carolina State Board of Barber Examiners  
Raleigh, North Carolina

### ***Opinion***

We have audited the accompanying financial statements of the North Carolina State Board of Barber Examiners (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of June 30, 2022 and 2021, 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 financial statements, which collectively comprise the Board's basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Board of Barber Examiners as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the North Carolina State Board of Barber Examiners and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibility of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Carolina State Board of Barber Examiner's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters we identified during the audit.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements presented are only for the North Carolina State Board of Barber Examiners and do not purport to, and do not present fairly the financial position of the State of North Carolina as of June 30, 2022 and 2021, or the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 - 3, the Schedules of Proportionate Share of Net Pension Liability and Board Contributions - Teachers' and State Employees' Retirement System on page 31; Proportionate Share of Net OPEB Liability and Schedule of Board Contributions - Retiree Health Benefit Fund and Disability Income Plan of North Carolina on page 32; and Schedule of Changes in the Total OPEB Liability and Related Ratios on page 33; 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  
October 12, 2022

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS****Statements of Net Position****June 30, 2022 and 2021**

	<u>2022</u>	<u>Restated 2021</u>
<b>ASSETS:</b>		
Current assets:		
Cash - State Treasurer	\$ 909,608	\$ 886,131
Accounts receivable, net	35,473	30,413
Prepaid expenses	7,718	8,172
Total current assets	<u>952,799</u>	<u>924,716</u>
Noncurrent assets:		
Net other postemployment benefit asset	234	610
Total noncurrent assets	<u>234</u>	<u>610</u>
Capital assets:		
Right to use leased assets, net of amortization	75,214	98,357
Property and equipment, net of depreciation	53,229	57,522
Total capital assets - net of depreciation	<u>128,443</u>	<u>155,879</u>
Total assets	<u>1,081,476</u>	<u>1,081,205</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Pension deferrals	49,518	36,227
Contributions to pension plan in current fiscal year	49,955	43,034
Other postemployment benefit deferrals	68,277	35,964
Total deferred outflows of resources	<u>167,750</u>	<u>115,225</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	58,751	52,133
Lease liabilities, current portion	22,643	21,208
Unearned revenue	343,407	375,825
Total current liabilities	<u>424,801</u>	<u>449,166</u>
Noncurrent liabilities:		
Accrued vacation	32,200	33,405
Lease liabilities, net of current portion	56,483	79,126
Net other postemployment benefit liability	380,225	331,839
Net pension liability	75,858	173,981
Total noncurrent liabilities	<u>544,766</u>	<u>618,351</u>
Total liabilities	<u>969,567</u>	<u>1,067,517</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Pension deferrals	98,078	3,550
Other postemployment benefit deferrals	191,508	293,697
Total deferred inflows of resources	<u>289,586</u>	<u>297,247</u>
<b>NET POSITION:</b>		
Investment in capital assets, net of lease liabilities	49,317	55,545
Unrestricted (deficit)	<u>(59,244)</u>	<u>(223,879)</u>
Total net position (deficit)	<u>\$ (9,927)</u>	<u>\$ (168,334)</u>

*See Notes to Financial Statements*

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2022 and 2021**

	2022	Restated 2021
Operating revenues:		
Registered certificates	\$ 295,260	\$ 273,615
Apprentice certificates	25,702	25,938
Instructor certificates	15,045	15,130
Apprentice exam fees	144,670	126,790
Registered exam fees	26,145	38,080
Instructor exam fees	5,940	7,260
Shop permits	128,885	129,100
Student permits	27,625	27,100
School permits	7,540	7,150
Inspection fees	29,008	42,640
Late fees	64,820	72,005
Fines and penalties	21,051	13,768
Miscellaneous	14,869	937
Total operating revenues	<u>806,560</u>	<u>779,513</u>
Operating expenses:		
Salaries and wages	311,908	288,643
Payroll taxes	22,229	20,447
Pension and other postemployment benefits	(37,469)	(23,024)
Medical insurance contributions	39,567	34,218
Board members' per diem	2,300	1,100
Travel - board members	538	1,110
Travel - staff	48,518	57,562
Other contracted services	22,573	26,587
Telephone	6,239	8,471
Exam	17,136	8,694
Interest expense on lease liabilities	2,949	2,502
Amortization, right to use leased assets	23,143	35,581
Depreciation	10,442	10,082
Equipment maintenance	-	2,883
Office supplies	10,727	6,734
Printing	6,421	6,329
Postage	15,294	14,088
Insurance and bonding	17,674	18,417
Legal services	5,792	2,362
Accounting and auditing	14,000	12,200
Computer services	86,356	65,750
Civil penalties remitted	15,772	12,877
Bad debt expense	3,900	-
Miscellaneous	3,434	2,987
Total operating expenses	<u>649,443</u>	<u>616,600</u>
Operating income	<u>157,117</u>	<u>162,913</u>
Non-operating revenues:		
Interest income	1,290	3,628
Gain on disposal of equipment	-	8,031
Total non-operating revenues	<u>1,290</u>	<u>11,659</u>
Changes in net position	158,407	174,572
Net position - beginning of year	(168,334)	(342,906)
Net position - end of year	<u>\$ (9,927)</u>	<u>\$ (168,334)</u>

*See Notes to Financial Statements*

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Statements of Cash Flows**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	Restated <u>2021</u>
Cash flows from operating activities:		
Cash received from fees	\$ 765,636	\$ 873,265
Cash payments to employees for services	(446,987)	(408,295)
Cash payments for suppliers of goods and services	(195,594)	(149,915)
Cash payments for interest on leased assets	(2,949)	(2,502)
Cash payments for other operating expenses	(70,562)	(75,636)
Net cash provided by operating activities	<u>49,544</u>	<u>236,917</u>
Cash flows from investing activities:		
Interest income	<u>1,290</u>	<u>3,628</u>
Net cash provided by investing activities	<u>1,290</u>	<u>3,628</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(6,149)	(42,687)
Payments on lease liabilities	(21,208)	(35,639)
Sale of surplus property	-	20,682
Net cash used in investing activities	<u>(27,357)</u>	<u>(57,644)</u>
Increase in cash	23,477	182,901
Cash - beginning of year	<u>886,131</u>	<u>703,230</u>
Cash - end of year	<u>\$ 909,608</u>	<u>\$ 886,131</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 157,117</u>	<u>\$ 162,913</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization, leased assets	23,143	35,581
Depreciation	10,442	10,082
Bad debt expense	3,900	-
Changes in assets and liabilities:		
Accounts receivable	(8,960)	(7,050)
Net other postemployment benefit asset	376	(32)
Prepaid expenses	454	(3,883)
Deferred outflows of resources	(52,525)	(2,843)
Accounts payable	6,618	22,600
Accrued vacation	(1,205)	(1,887)
Unearned revenue	(32,418)	104,685
Net pension liability	(98,123)	12,256
Net other postemployment benefit liability	48,386	(92,782)
Deferred inflows of resources	(7,661)	(2,723)
Total adjustments	<u>(107,573)</u>	<u>74,004</u>
Net cash provided by operating activities	<u>\$ 49,544</u>	<u>\$ 236,917</u>

# NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

## Notes to Financial Statements

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### NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

#### **Description of Organization**

The North Carolina State Board of Barber Examiners (the "Board") is an independent State agency. It is an occupational licensing board authorized by Chapter 86A of the *North Carolina General Statutes*. The five Board members are appointed by the Governor of the State of North Carolina. The Board is entitled to the services of the Attorney General of North Carolina.

The Board's function is to maintain minimum standards for services provided by barbers, barber apprentices, barber instructors, barber shops, and barber schools. The Board's operations are funded primarily through license fees, license examination fees and other income.

#### **Financial Reporting Entity**

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

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and may be reported as such in the State's *Annual Comprehensive Financial Report* (ACFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

#### **Basis of Presentation**

The accompanying basic financial statements have been prepared in accordance with GAAP as prescribed by the 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 recorded when a liability has been incurred, regardless of the timing of the cash flows. Fees received for the various licenses are deemed earned when the license period begins. The Board classifies its revenues and expenses 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.

# NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

## Notes to Financial Statements

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

#### **Basis of Accounting (Continued)**

Operating revenues include activities that have characteristics of exchange transactions and consist primarily of license renewal and examination fees. Operating expenses are all expense transactions other than those related to capital and noncapital 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*. Non-operating revenues and expenses include activities that have characteristics of non-exchange transactions and consist primarily of investment activities.

#### **Changes in Financial Accounting and Reporting**

For the fiscal year ended June 30, 2022, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, and GASB Statement No. 98, *The Annual Comprehensive Financial Report*.

GASB Statement No. 87 increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

#### **Cash - State Treasurer**

This classification consists of funds deposited by the Board with the cash accounts of the North Carolina State Treasurer. Because these funds are immediately available for expenditure, they are considered a cash equivalent.

#### **Accounts Receivable**

Accounts receivable consist of civil penalties and legal fees due from administrative proceedings and are shown at book value less an allowance for doubtful accounts which is based on management's review of past due accounts and collection history. At June 30, 2022 and 2021, the allowance was \$23,100 and \$19,200, respectively.

# **NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

## **Notes to Financial Statements**

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

#### **Right-To-Use Leased Asset and Lease Liabilities**

Leases that provide the Board the right-to-use an asset for a period of more than one year are considered a capital asset. Right-to-use leased assets are recorded at the initial measurement of the lease liability which equals the present value of all payments expected to be made during the lease term. The right-to-use leased assets are amortized on a straight-line basis over the term of the lease(s).

Lease liabilities represent the Board's financial obligation to make lease payments during the term of the lease and is measured at the present value of future lease payments.

#### **Property and Equipment**

Property and equipment, including software purchases, of \$5,000 or more with an expected useful life greater than two years are considered capital assets. Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the following useful lives:

Equipment, furniture and software	3 - 10 years
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When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in non-operating revenue or expense for the period.

#### **Unearned Revenues**

Licenses are renewed for a period of one year. License applications, renewal fees, and exam fees received in advance are deferred and recognized as revenue in the period to which they relate.

#### **Accrued Vacation**

The vacation policy of the Board provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned.

#### **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: Contributions made to the pension plan, disability plan, and the retirement health benefit plan, and deferrals of pension assets and other postemployment benefit assets that resulted from the implementation of GASB Statement No. 68 and GASB Statement No. 75. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, called deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has the following items that meet the criterion for this category: Deferrals of pension expense and other postemployment benefit expense that resulted from the implementation of GASB Statement No. 68 and GASB Statement No. 75.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

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

**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. Capital assets include property and equipment, net of accumulated depreciation; right-to-use leased assets, net of accumulated amortization; and related lease liabilities.

*Unrestricted* - This represents assets with no external restriction as to use or purpose. Unrestricted net assets can be employed for any purpose designated by the governing board, as distinguished from funds restricted externally for specific purposes.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NOTE 2 - DEPOSITS - CUSTODIAL CREDIT RISK

**Cash - State Treasurer**

Deposits include cash on deposit with the State Treasurer. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment were comprised of the following:

	<u>Cost</u> <u>6/30/2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost</u> <u>6/30/2022</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Equipment/ furniture/ software	<u>\$ 142,470</u>	<u>\$ 6,149</u>	<u>\$ -</u>	<u>\$ 148,619</u>	<u>\$ 95,390</u>	<u>\$ 53,229</u>
	<u>Cost</u> <u>6/30/2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost</u> <u>6/30/2021</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Equipment/ furniture/ software	<u>\$ 203,209</u>	<u>\$ 42,687</u>	<u>\$ (103,426)</u>	<u>\$ 142,470</u>	<u>\$ 84,948</u>	<u>\$ 57,522</u>

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

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NOTE 4 - ACCRUED VACATION

Accrued vacation consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Beginning accrued vacation	\$ 33,405	\$ 35,292
Vacation earned	21,953	20,967
Vacation used	<u>(23,158)</u>	<u>(22,854)</u>
Ending accrued vacation	<u>\$ 32,200</u>	<u>\$ 33,405</u>

NOTE 5 - PENSION PLAN

**Plan Administration**

The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

**Benefits Provided**

TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's 4 highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with 5 years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with 5 years of membership service.

Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 5 years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

**Contributions**

Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate require of plan members.

## **NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

### **Notes to Financial Statements**

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#### NOTE 5 - PENSION PLAN (Continued)

##### **Contributions (Continued)**

The Board's contractually-required contribution rates for the year ended June 30, 2022 was 14.78% of covered payroll from July 1, 2021 through December 31, 2021 and was 17.98% of covered payroll from January 1, 2022 through June 30, 2022. The Board's contributions to the pension plan were \$49,955 and employee contributions were \$17,278 for the year ended June 30, 2022.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2021 *Annual Comprehensive Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

##### **TSERS Basis of Accounting**

The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

##### **Methods Used to Value TSERS Investment**

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund participate in the Long-term Investment, the Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-term Investment and Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. The Registers of Deeds' Supplemental Pension Fund is invested in the Bond Index External Investment Pool. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. Descriptions of the investments of the TSERS plan are included in the State of North Carolina's fiscal year 2021 Annual Comprehensive Financial Report.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

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NOTE 5 - PENSION PLAN (Continued)

**Net Pension Liability**

At June 30, 2022, the Board reported a liability of \$75,858 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The Board's proportion of the net pension liability was based on the present value of future salaries for the Board relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the Board's proportion was 0.00162%, compared to 0.00144% as of June 30, 2021.

**Actuarial Assumptions**

The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2020
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

- \* Salary increases include 3.25% inflation and productivity factor.
- \*\* Investment rate of return includes inflation assumption and is net of pension plan investment expense.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections.

Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

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NOTE 5 - PENSION PLAN (Continued)

**Actuarial Assumptions (Continued)**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Protection	4.0%

The information above is based on 30-year expectations developed with the consulting actuary and is part of the asset liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 was 1.3%.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.5%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the plan calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage point higher (7.5%) than the current rate (dollars in thousands):

1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
\$254,456	\$75,858	(\$72,602)

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS****Notes to Financial Statements**

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## NOTE 5 - PENSION PLAN (Continued)

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

For the year ended June 30, 2022, the Board recognized pension expense of \$26,118. At June 30, 2022, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

***Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension by Classification***

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between actual and expected experience	\$ 4,264	\$ 1,723
Changes of assumptions	28,455	-
Net difference between projected and actual earnings on pension plan investments	-	93,989
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,799	2,366
Contributions subsequent to the measurement date	49,955	-
	<u>\$ 99,473</u>	<u>\$ 98,078</u>

The amount reported as deferred outflows of resources related to pensions of \$49,955 will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30:</u>	
2023	\$ (4,893)
2024	(6,924)
2025	(7,917)
2026	(28,826)
2027	-
	<u>\$ (48,560)</u>

*Amount of the Employer's Balance of Deferred Outflows of Resources that will be Included as a Reduction of the Net Pension Liability in the Fiscal Year Ended June 30, 2023:*

Deferred Outflow Amount	<u>\$ 49,955</u>
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**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

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NOTE 5 - PENSION PLAN (Continued)

**Changes in Long-Term Liabilities**

	Net <u>Liability</u>
Balance July 1, 2021	\$ 173,981
Additions	-
Deletions	<u>(98,123)</u>
Balance, June 30, 2022	<u>\$ 75,858</u>
Due within one year	<u><u>\$ -</u></u>

NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS

The Board participates in two Other Postemployment Benefit ("OPEB") plans administered by the State of North Carolina: the Retiree Health Benefit Fund ("RHBF") and the Disability Income Plan of North Carolina ("DIPNC"). Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to members of that plan and for related administrative costs.

The financial statements of the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the OPEB funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool.

Each plan's financial information including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2021 Annual Comprehensive Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov> and clicking on "Reports" in the "Public Information" menu or by calling the State Controller's Financial reporting Section at (919)707-0500.

**Plan Descriptions:**

**Retirement Health Benefit Fund (RHBF)**

*Plan Administration*

The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments also participate. Management of the Plan is vested in the State Health Plan Board of Trustees.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Notes to Financial Statements**

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NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

**Retirement Health Benefit Fund (RHBF) (Continued)**

*Plan Administration (Continued)*

The RHBF has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, Local Education Agencies (LEAs), charter schools and some select local governments also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

*Benefits Provided*

RHBF provides benefits to retired employees and disabled employees. Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the "DIPNC" and retirees of the Teachers' and State Employees' Retirement System (TSERS), with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. Employees first hired on or after October 1, 2006 with 5 but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis. RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

*Contributions*

By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to the RHBF are irrevocable. Also by law, RHBF assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

# NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

## Notes to Financial Statements

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### NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

#### **Retirement Health Benefit Fund (RHBF) (Continued)**

##### *Contributions (Continued)*

The Board's contractually-required contribution rates for the year ended June 30, 2022 was 6.68% of covered payroll from July 1, 2021 through December 31, 2021 and was 5.90% of covered payroll from January 1, 2022 through June 30, 2022. The Board's contributions to the RHBF were \$19,183 for the year ended June 30, 2022.

#### **Disability Income Plan of NC (DIPNC)**

##### *Plan Administration*

Short-term and long-term disability benefits are provided through the DIPNC, a cost-sharing, multiple-employer defined benefit plan, to the eligible members of the Teachers' and State Employees' Retirement System (TSERS) which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units and Local Education Agencies (LEAs), and the University Employees' Optional Retirement Program. By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the TSERS.

##### *Benefits Provided*

Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System (TSERS), earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had 5 or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Notes to Financial Statements**

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NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

**Disability Income Plan of NC (DIPNC) (Continued)**

*Benefits Provided (Continued)*

The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month.

After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

*Contributions*

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2022, the Board made a statutory contribution of 0.09% of covered payroll, which totaled \$274. This was equal to the actuarially required contribution.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

**Net Other Postemployment Benefits Liability and Asset**

*Net OPEB Liability:* At June 30, 2022, the Board reported a liability for the RHBFB of \$380,225 for its proportionate share of the collective net RHBFB liability. The net RHBFB liability was measured as of June 30, 2020. The total RHBFB liability used to calculate the net RHBFB liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total RHBFB liability to June 30, 2021. The Board's proportion of the net RHBFB liability was based on the present value of future salaries for the Board relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the Board's proportion was 0.00123%, compared to 0.00120% as of June 30, 2021.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

**Net Other Postemployment Benefits Liability and Asset (Continued)**

*Net OPEB Asset:* At June 30, 2022, the Board reported an asset for the DIPNC of \$234 for its proportionate share of the collective net DIPNC asset. The net DIPNC asset was measured as of June 30, 2020. The total DIPNC asset used to calculate the net DIPNC asset was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total DIPNC asset to June 30, 2021.

The Board's proportion of the net DIPNC asset was based on the present value of future salaries for the Board relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the Board's proportion was 0.00143%, compared to 0.00124% as of June 30, 2021.

*Actuarial Assumptions*

The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

The total OPEB liabilities were then rolled forward to June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

	<u>RHBF</u>	<u>DIPNC</u>
Valuation Date	12/31/2020	12/31/2020
Inflation	2.50%	2.50%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.50%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5.0%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	3.00%

\* Salary increases include 3.25% inflation and productivity factor.

\*\* Investment rate of return includes inflation assumption and is net of pension plan investment

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

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NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

*Actuarial Assumptions (Continued)*

Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies’ return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2021.

Best estimates of real rates of return for each major asset class included in the RHBF’s target asset allocation as of June 30, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.40%
Global Equity	5.30%
Real Estate	4.30%
Alternatives	8.90%
Opportunistic Fixed Income	6.00%
Inflation Sensitive	4.00%

The information in the preceding table is based on 30 year expectations developed with the consulting actuary and is part of the asset liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of the TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

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NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

*Actuarial Assumptions (Continued)*

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2020 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate*

The discount rate used to measure the total OPEB liability for RHBF was 2.16%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan’s fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the plans at June 30, 2021, as well as what the plans’ 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 discount rate (dollars in thousands):

RHBF net OPEB liability

1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
\$452,272	\$380,225	\$321,875

DIPNC net OPEB asset

1% Decrease (2.00%)	Current Discount Rate (3.00%)	1% Increase (4.00%)
(\$148)	(\$234)	(\$314)

# NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

## Notes to Financial Statements

### NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

#### *Sensitivity of the Net Pension Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current healthcare cost trend rates:

#### RHBF net OPEB Liability

1% Decrease (Medical - 4.0 - 5.0% Pharmacy - 4.0 - 8.5% Med. Advantage - 4.0% Administrative - 2.0%)	Current Healthcare Trend Rate (Medical - 5.0 - 6.0% Pharmacy - 5.0 - 9.5% Med. Advantage - 5.0% Administrative - 3.0%)	1% Increase (Medical - 6.0 - 7.0% Pharmacy - 6.0 - 10.5% Med. Advantage - 6.0% Administrative - 4.0%)
\$307,918	\$380,225	\$476,147

#### DIPNC net OPEB Liability

1% Decrease (Medical - 4.0 - 5.0% Pharmacy - 4.0 - 8.5% Administrative - 2.0%)	Current Healthcare Trend Rate (Medical - 5.0 - 6.0% Pharmacy - 5.0 - 9.5% Administrative - 3.0%)	1% Increase (Medical - 6.0 - 7.0% Pharmacy - 6.0 - 10.5% Administrative - 4.0%)
(\$246)	(\$234)	(\$219)

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

For the year ended June 30, 2022, the Board recognized other postemployment benefits expense of \$(63,587). At June 30, 2022, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

#### *Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Other Postemployment Benefits Plans by Classification*

	RHBF		DIPNC	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 2,245	\$ 7,078	\$ 596	\$ -
Changes of assumptions	31,099	92,403	41	85
Net difference between projected and actual earnings on OPEB plan investments	-	195	23	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,635	91,645	181	102
Contributions subsequent to the measurement date	19,183	-	274	-
	<u>\$ 67,162</u>	<u>\$ 191,321</u>	<u>\$ 1,115</u>	<u>\$ 187</u>

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

**Notes to Financial Statements**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

The amount reported as deferred outflows of resources of \$19,183 and \$274 related to RHBF and DIPNC, respectively, will be included as a reduction of the net pension liability in the fiscal year ending June 30, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to RHBF and DIPNC will be recognized in other postemployment benefit expense as follows:

<u>Years Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2023	\$ (95,433)	\$ 172
2024	(30,742)	123
2025	(10,932)	157
2026	(13,537)	81
2027	7,302	40
Thereafter	-	81
	<u>\$ (143,342)</u>	<u>\$ 654</u>

*Amount of the Employer's Balance of Deferred Outflows of Resources that will be Included as a Reduction of the Net Other Postemployment Benefits Liability in the Fiscal Year Ending June 30, 2023:*

	<u>RHBF</u>	<u>DIPNC</u>
Deferred Outflow Amount	<u>\$ 19,183</u>	<u>\$ 274</u>

*Changes in Long-Term Liabilities and Assets*

	<u>RHBF</u>	<u>DIPNC</u>
	<u>Net OPEB</u>	<u>Net OPEB</u>
	<u>Liability</u>	<u>Asset</u>
Balance July 1, 2021	\$ 331,839	\$ 610
Additions	48,386	-
Deletions	-	(376)
Balance, June 30, 2022	<u>\$ 380,225</u>	<u>\$ 234</u>
Due within one year	<u>\$ -</u>	<u>\$ -</u>

# NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

## Notes to Financial Statements

### NOTE 7 - RIGHT-TO-USE LEASED ASSETS AND RELATED LEASE LIABILITIES

The Board has a lease providing the right-to-use office space for a term of five years beginning October 1, 2020 and ending September 30, 2025. The lease requires monthly payments of \$1,969 which increase at a rate of 3% annually. The Board has the option to renew the lease for an additional three year period. The prior lease ended on October 31, 2020.

Lease expenses were comprised of the following:

	<u>2022</u>	<u>2021</u>
Amortization expense by class of underlying asset		
Office space	<u>\$ 23,143</u>	<u>\$ 35,581</u>
Interest on lease liabilities	<u>\$ 2,949</u>	<u>\$ 2,502</u>

Right-to-use leased assets activity:

	<u>6/30/2021</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2022</u>
Office space	\$ 115,714	\$ -	\$ -	\$ 115,714
Less: Accumulated amortization	(17,357)	(23,143)	-	(40,500)
Right-to-use assets, net	<u>\$ 98,357</u>	<u>\$ (23,143)</u>	<u>\$ -</u>	<u>\$ 75,214</u>

	<u>6/30/2020</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2021</u>
Office Space	\$ 273,360	\$ 115,715	\$(273,361)	\$ 115,714
Less: Accumulated amortization	(255,137)	(35,581)	273,361	(17,357)
Right-to-use assets, net	<u>\$ 18,223</u>	<u>\$ 80,134</u>	<u>\$ -</u>	<u>\$ 98,357</u>

Lease liabilities were comprised of the following:

	<u>6/30/2021</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2022</u>
Office space	\$ 100,334	\$ -	\$ (21,208)	\$ 79,126

	<u>6/30/2020</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2021</u>
Office Space	\$ 20,259	\$ 115,714	\$ (35,639)	\$ 100,334

Future lease payments are comprised of the following:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2023	\$ 22,643	\$ 2,239	\$ 24,882
2024	24,147	1,480	25,627
2025	25,724	672	26,396
2026	6,612	36	6,648
2027	-	-	-
Thereafter	-	-	-
	<u>\$ 79,126</u>	<u>\$ 4,427</u>	<u>\$ 83,553</u>

# NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

## Notes to Financial Statements

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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 the destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of Board members 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 building and contents, commercial liability, directors' and officers' liability, workers' compensation and employers' liability.

### NOTE 9 - CONTINGENT LIABILITIES

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, the results of such actions during the years under audit do not materially affect the financial position of the Board at year-end.

### NOTE 10 - RELATED PARTY TRANSACTION

The Board pays fees to a family member of its staff related for janitorial services which totaled \$4,200 for the fiscal years ended June 30, 2022 and 2021.

### NOTE 11 - RESTATEMENT

The adoption of GASB Statement No. 87 changed the manner in which the Board accounts for leases that provide the Board the right-to-use office space and a copier. Under GASB Statement No. 87, a lessee is required to recognize an intangible right-to-use lease asset and a lease liability. Right-to-use leased assets are recorded at the initial measurement of the lease liability which equals the present value of all payments expected to be made during the lease term. Right-to-use leased assets are amortized over the term of the lease contract. Lease payments are separated into interest expense and a reduction of the lease liabilities.

The effects of the changes as of and for the year ended June 30, 2021 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Statement of Revenues, Expenses and Changes in Net Position:			
Office rent	\$ 38,141	\$ -	\$ (38,141)
Interest expense on lease liabilities	-	2,502	2,502
Amortization, right to use leased assets	-	35,581	35,581
Net position, beginning of year	(340,871)	(342,906)	(2,035)
Statement of Net Position:			
Right to use leased assets, net of amortization	\$ -	\$ 98,357	\$ 98,357
Lease liabilities, current portion	-	21,208	21,208
Lease liabilities	-	79,126	79,126

## **NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**

### **Notes to Financial Statements**

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#### NOTE 12 - AMERICAN RESCUE PLAN ACT FUNDS

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into public law (PL 117-2) and \$5.7 billion of State Fiscal Recovery Funds was appropriated to the State of North Carolina. On November 18, 2021, the North Carolina State Governor signed into law (SL 2021-180) a bill which appropriated the funds to pay bonuses to employees in the state. The Board received a total of \$9,150 which is included as miscellaneous income in the accompanying Statements of Revenues, Expenses and Changes in Net Position. During the year ended June 30, 2022, the funds were utilized to pay employee bonuses and related payroll taxes.

#### NOTE 13 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through October 12, 2022, which is the date the financial statements were available to be issued. Management discovered no other subsequent events which should be disclosed other than noted below.

The General Assembly passed legislation (Session Law 2022-72) that will move the Board of Electrolysis Examiners under the Board of Barber Examiners, forming a newly merged board. The merger will be effective January 1, 2023.

The audit was conducted in approximately 85 hours at a cost of \$14,500

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Proportionate Share of Net Pension Liability and Schedule of Board Contributions**  
**Teachers' and State Employees' Retirement System**  
**Years Ended June 30, 2022 and 2021**

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportionate share percentage of the net pension liability (asset)	0.00162%	0.14400%	0.00156%	0.00160%	0.00156%	0.00219%	0.00186%	0.00244%	0.00240%
Proportionate share of the net pension liability (asset)	\$ 75,858	\$ 173,981	\$ 161,725	\$ 159,297	\$ 123,777	\$ 201,284	\$ 68,545	\$ 28,607	\$ 145,704
Covered-employee payroll	311,908	288,643	268,739	258,600	267,463	257,594	336,862	393,430	396,614
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	24.32%	60.28%	60.18%	61.60%	46.28%	78.14%	20.35%	7.27%	36.74%
Plan fiduciary net position as a percentage of the total pension liability	94.86%	85.98%	87.56%	87.61%	87.32%	87.32%	94.64%	98.24%	90.60%
<b>Contributions:</b>									
Contractually required contribution	\$ 67,233	\$ 57,571	\$ 47,897	\$ 48,039	\$ 43,067	\$ 39,938	\$ 50,789	\$ 82,935	\$ 79,713
Contributions in relation to the contractually required contribution	67,233	57,571	47,897	48,039	43,067	39,938	50,789	82,935	79,713
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 311,908	\$ 288,643	\$ 268,739	\$ 258,600	\$ 267,463	\$ 257,594	\$ 336,862	\$ 393,430	\$ 396,614
Contributions as a percentage of covered-employee payroll	21.56%	19.95%	17.82%	18.58%	16.10%	15.50%	15.08%	21.08%	20.10%

*\*Information for periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as information becomes available.*

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Proportionate Share of Net OPEB Liability and Schedule of Board Contributions**  
**Retiree Health Benefit Fund and Disability Income Plan of North Carolina**  
**Years Ended June 30, 2022 and 2021**

	2022	2021	2020	2019	2018
<b>Retiree Health Benefit Fund</b>					
Proportionate share percentage of collective net OPEB liability (asset)	0.00123%	0.00120%	0.00134%	0.00136%	0.00146%
Proportionate share of collective net OPEB liability (asset)	\$ 380,225	\$ 331,839	\$ 424,621	\$ 387,347	\$ 478,866
Covered-employee payroll	\$ 311,908	\$ 288,643	\$ 268,739	\$ 258,600	\$ 396,614
Net OPEB liability as a percentage of covered payroll	121.90%	114.97%	158.00%	149.79%	120.74%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	7.72%	6.92%	4.40%	4.40%	3.52%
<b>Disability Income Plan of North Carolina</b>					
Proportionate share percentage of collective net OPEB liability (asset)	0.00143%	0.00124%	0.00134%	0.00138%	0.00136%
Proportionate share of collective net OPEB liability (asset)	\$ (234)	\$ (610)	\$ (578)	\$ (419)	\$ (831)
Covered-employee payroll	\$ 311,908	\$ 288,643	\$ 268,739	\$ 258,600	\$ 396,614
Net OPEB liability as a percentage of covered payroll	-0.08%	-0.21%	-0.22%	-0.16%	-0.21%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	-105.18%	-115.57%	-113.00%	-108.47%	-116.23%

*\*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.*

**NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB liability</b>					
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(4,237)	(12,239)	(20,815)	(25,757)	(34,108)
Changes of assumptions or other inputs	52,999	(80,575)	57,930	(65,350)	(343,694)
Benefit payments	-	-	-	-	-
Net change in total OPEB liability	<u>48,762</u>	<u>(92,814)</u>	<u>37,115</u>	<u>(91,107)</u>	<u>(377,802)</u>
Total OPEB - beginning	331,229	424,043	386,928	478,035	855,837
Total OPEB - ending	<u>\$ 379,991</u>	<u>\$ 331,229</u>	<u>\$ 424,043</u>	<u>\$ 386,928</u>	<u>\$ 478,035</u>
Covered-employee payroll	\$ 311,908	\$ 288,643	\$ 268,739	\$ 258,600	\$ 396,614
Total OPEB liability as a percentage of covered-employee payroll	121.83%	114.75%	157.79%	149.62%	120.53%

*\*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.*