

**NORTH CAROLINA STATE BOARD  
OF BARBER EXAMINERS**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

**BERNARD ROBINSON & COMPANY, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS**

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS

JUNE 30, 2013 AND 2012

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NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The following is a discussion and analysis of the Board's financial performance for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements, which follow this section.

**Financial Highlights**

The operating revenues of the Board increased by \$26,654 or 3.3% primarily due to an increase in licensees and collection of civil penalties and attorney cost reimbursements.

The operating expenses of the Board increased by \$161,321 or 23% primarily due to an increase in salaries and wages and other employment related expenses such as payroll tax, retirement contributions and medical insurance. The increase in salaries was attributed primarily to the attorney position being filled for twelve months in the current fiscal year compared to two months in the prior fiscal year, and employee raises.

**Overview of the Financial Statements**

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of two components: 1) financial statements, and 2) notes to financial statements. This report also contains required supplementary information in addition to the basic financial statements.

**Basic Financial Statements**

The 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.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Basic Financial Statements - continued**

The following presents condensed financial information on the operations of the Board:

	As of and for the fiscal year ended June 30, 2013	As of and for the fiscal year ended June 30, 2012
Current assets	\$ 549,074	\$ 527,557
Capital assets-net of depreciation	84,845	34,471
Total assets	<u>633,919</u>	<u>562,028</u>
Current liabilities	361,144	262,776
Noncurrent liabilities	32,345	32,635
Total liabilities	<u>393,489</u>	<u>295,411</u>
Investment in capital assets	84,845	34,471
Unrestricted	155,585	232,146
Total net position	<u>\$ 240,430</u>	<u>\$ 266,617</u>
Operating revenues	\$ 832,878	\$ 806,224
Operating expenses	861,484	700,163
Operating income (loss)	<u>(28,606)</u>	<u>106,061</u>
Nonoperating income	2,419	3,269
Change in net position	<u>\$ (26,187)</u>	<u>\$ 109,330</u>

**Events Affecting Future Operations**

Revenue for the next fiscal year will likely remain the same or may slightly increase due to a higher number (approximately 500) of registered barbers.

Late fees, fines/penalties and reimbursed legal fees are large sources of revenue; however, these revenues are not reliable as each depends upon individuals failing to renew licenses on time and/or to comply with Statutes and Rules, which are actions outside of the control of the organization. Future online renewal options and advances in communication between the Board and registrants regarding regulatory compliance will result in a decrease in these sources of revenue.

A fee increase will be necessary in the near future in order for the Board to maintain the same level of service, to continue to invest in the efficiencies of technology and to retain an adequate emergency operating fund reserve.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The Board has not had a statutory fee increase in ten years. Relative growth in revenue has marginally stayed ahead of expenses largely due to late fee and civil penalty revenue, which the Board has become dependent upon to fund operations. The Board needs to have adequate and reliable revenue independent from these sources.

Expenses for the next fiscal year will likely be lower by approximately \$30,000 due to savings realized from an unfilled Administrative Assistant position. This savings may be offset by increases in other operational expenses.

**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, 5809 Departure Drive, Suite 102, Raleigh, NC 27616-1858.

## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statements***

We have audited the statements of net position of the North Carolina State Board of Barber Examiners (the "Board") as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the fiscal years then ended, and the related notes to the 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 the basic financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the basic financial statements are free of 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 opinions.

### **Opinions**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Board's activities as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 the 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 17, 2013

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012

	2013	2012
<b>ASSETS</b>		
Current assets		
Cash - State Treasurer	\$ 546,722	\$ 527,557
Prepays	2,352	-
Total current assets	549,074	527,557
Capital assets, net of depreciation	84,845	34,471
<b>TOTAL ASSETS</b>	<b>633,919</b>	<b>562,028</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	42,691	15,788
Due to employees	2,762	2,862
Deferred revenue	315,691	244,126
Total current liabilities	361,144	262,776
Noncurrent liabilities		
Accrued vacation	32,345	32,635
<b>TOTAL LIABILITIES</b>	<b>393,489</b>	<b>295,411</b>
<b>NET POSITION</b>		
Investment in capital assets	84,845	34,471
Unrestricted	155,585	232,146
<b>TOTAL NET POSITION</b>	<b>\$ 240,430</b>	<b>\$ 266,617</b>



NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Registered certificates	\$ 283,235	\$ 277,530
Apprentice certificates	39,500	36,915
Instructor certificates	7,650	9,945
Apprentice exam fees	69,865	80,805
Registered exam fees	35,470	42,405
Instructor exam fees	8,250	9,350
Shop permits	124,840	135,099
Student permits	27,585	27,935
School permits	3,380	5,540
Inspection fees	26,960	36,130
Late fees	86,590	94,175
Fines and penalties	42,709	17,705
Legal fees reimbursed	71,050	25,248
Miscellaneous	5,794	7,442
<b>TOTAL OPERATING REVENUES</b>	<b>832,878</b>	<b>806,224</b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	411,912	308,803
Payroll taxes	30,484	21,686
Retirement contributions	58,656	39,328
Medical insurance contributions	46,059	37,638
Board members' per diem	4,500	5,433
Travel - board members	2,425	2,560
Travel - staff	54,240	65,707
Other contracted services	27,861	4,787
Office rent	62,116	60,238
Telephone	12,744	14,380
Exam	7,125	8,415
Depreciation	5,201	4,809
Equipment rental and maintenance	10,414	11,096
Office supplies	24,736	11,732
Printing	7,184	6,821
Postage	14,366	15,247
Insurance and bonding	6,413	642
Legal services	11,436	36,589
Accounting and auditing	6,500	7,150
Computer services	10,437	12,367
Seminar and educational materials	1,314	708
Civil penalties remitted to State Treasurer	35,059	19,005
Miscellaneous	10,302	5,022
<b>TOTAL OPERATING EXPENSES</b>	<b>861,484</b>	<b>700,163</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(28,606)</b>	<b>106,061</b>
<b>NONOPERATING INCOME</b>		
INTEREST INCOME	2,419	3,269
<b>NET INCOME (LOSS)</b>	<b>(26,187)</b>	<b>109,330</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>266,617</b>	<b>157,287</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 240,430</b>	<b>\$ 266,617</b>

See Accompanying Notes to Financial Statements.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Cash received from fees	\$ 902,091	\$ 835,055
Cash payments for operating expenses	(417,468)	(383,471)
Cash payments to employees for services	(412,302)	(297,246)
Net cash provided by operating activities	<u>72,321</u>	<u>154,338</u>
Cash flows from investing activities		
Purchase of capital assets	(55,575)	(3,900)
Interest	2,419	3,269
Net cash used in investing activities	<u>(53,156)</u>	<u>(631)</u>
Net increase in cash	19,165	153,707
Cash - beginning of year	<u>527,557</u>	<u>373,850</u>
Cash - end of year	<u>\$ 546,722</u>	<u>\$ 527,557</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	<u>\$ (28,606)</u>	<u>\$ 106,061</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Loss on disposal of equipment	-	257
Depreciation	5,201	4,809
Changes in assets and liabilities		
Accounts receivable	-	10
Prepays	(2,352)	-
Accounts payable	26,903	2,823
Due to employees	(100)	2,862
Accrued vacation	(290)	8,695
Deferred revenue	71,565	28,821
Total adjustments	<u>100,927</u>	<u>48,277</u>
Net cash provided by operating activities	<u>\$ 72,321</u>	<u>\$ 154,338</u>

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

Note 1 - Summary of Significant Accounting Policies

**Description of Organization**

The North Carolina State Board of Barber Examiners (the "Board") is authorized by Chapter 86A of the North Carolina General Statutes (NCGS) to maintain minimum standards for services provided by barbers, barber apprentices and barber schools. The Board's operations are funded through license fees, license examination fees and other income.

The Board is considered an agency of the State of North Carolina for financial reporting purposes, and is granted independent authority by the NCGS. 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.

**Basis of Presentation**

The accompanying basic financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB).

All activities of the Board are accounted for within a single proprietary (enterprise) fund. 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.

For the fiscal year ended June 30, 2013, the Board implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes *GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided for business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. This Statement has been applied retrospectively and had no impact on the Board's financial statements.

*GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance on how to present two new financial statement elements - "deferred inflows" and "deferred outflows" - within a government's financial statements. In addition, terminology changes were made from the "Net Asset" concept to the "Net Position" concept.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

Note 1 - Summary of Significant Accounting Policies - continued

**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.

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. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of license renewal fees.

Non-operating revenues and expenses include activities that have characteristics of non-exchange transactions and consist primarily of investment activities.

**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.

**Capital Assets**

Furniture and equipment with a purchase price of \$1,000 or greater are considered capital assets. Assets are stated at cost and are depreciated over their useful lives on a straight-line basis. 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 the earnings for the period.

**Deferred 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.

**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 and disclosures. Accordingly, actual results could differ from those estimates.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013 AND 2012

Note 2 - Deposits

**Cash - State Treasurer**

Deposits at June 30, 2013 and 2012, include cash on deposit with the State Treasurer in the amount of \$546,722 and \$527,557, respectively. 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 - Capital Assets

Capital assets are comprised of the following:

	<u>Cost</u> <u>6/30/2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost</u> <u>6/30/2013</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Furniture and equipment	\$ 172,529	\$ 55,575	\$ 10,005	\$ 218,099	\$ 133,254	\$ 84,845

	<u>Cost</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost</u> <u>6/30/2012</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Furniture and equipment	\$ 194,026	\$ 3,900	\$ 25,397	\$ 172,529	\$ 138,058	\$ 34,471

Note 4 - Accrued Vacation

Accrued vacation consisted of the following:

	<u>2013</u>	<u>2012</u>
Beginning accrued vacation	\$ 32,635	\$ 23,940
Vacation earned	27,754	21,723
Vacation used	<u>(28,044)</u>	<u>(13,028)</u>
Ending accrued vacation	<u>\$ 32,345</u>	<u>\$ 32,635</u>

Note 5 - Net Position

Investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation.

Unrestricted – This component of net position consists of assets with no external restriction as to use or purpose.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

Note 6 - Retirement Plans

Prior to October 1, 2000, the Board had established a separate retirement plan for permanent full-time employees. On October 1, 2000, the Board's employees became eligible to participate in the Teachers' and State Employees' Retirement System of North Carolina (System), which is a multiple-employer, cost-sharing defined benefit pension plan administered by the North Carolina State Treasurer. Benefit and contribution provisions for the System are established by the North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations.

Plan members are required to contribute 6% of their annual covered salary. The Board is required to contribute at an actuarially determined rate. The Board's pension contributions were \$58,656 and \$39,328 for the years ended June 30, 2013 and 2012, respectively, based on the actuarially determined rate of 13.12% of annual covered payroll.

Note 7 - Operating Leases

The Board entered into a seven-year lease agreement for office facilities in May 2003, effective September 1, 2003, which provided the option to renew for two additional five-year periods. On September 24, 2010, the Board opted to renew the lease for five years from November 1, 2010, to October 31, 2015. The lease rates for the first five-year renewal are subject to the Consumer Price Index increase not to exceed 1.5%. The Board also leases a copier which expires in December 2015. Total rent expense under operating leases charged to operations was \$62,116 and \$60,238 for the years ended June 30, 2013 and 2012, respectively.

The following is a schedule by years of future minimum rentals under leases at June 30, 2013:

<u>For the Years Ending June 30</u>	
2014	\$ 61,517
2015	59,979
2016	<u>19,292</u>
Total	<u>\$ 140,788</u>

In September 2013, the Board entered into a lease agreement for a new copier which calls for 60 monthly payments of approximately \$576. Under the agreement, the new leasing company paid the Board the balance under the old copier lease of \$6,422 to be applied to the remaining monthly payments under the old lease which expires in December 2014.

NORTH CAROLINA STATE BOARD OF BARBER EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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 Board, under the authority of the State Tort Claims Act.

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 – Commitment

In November 2012, the Board entered into a contract for the installation of a new software system. The total contracted amount was \$61,750, of which \$33,345 was paid during the year ended June 30, 2013, and \$22,230 was included in accounts payable at year-end and was paid in July 2013. The amounts paid and accrued at June 30, 2013 totaling \$55,575 were capitalized at year-end. The remaining balance of \$6,175 was paid in August 2013. The agreement also calls for software support costs of \$2,352 per month from May 2013 through July 2014.

Note 11 – Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Note 12 – Related Party Transaction

The Board pays fees to a family member of its staff related to janitorial services which amounted to \$4,200 for the fiscal years ended June 30, 2013 and 2012.

Note 13 – Subsequent Events

Management of the Board evaluated subsequent events through October 17, 2013, which is the date the financial statements were available to be issued. Management discovered no subsequent events which should be disclosed.

The Board audit was conducted in 55 hours at a total audit cost of \$6,700.