

**NORTH CAROLINA LICENSING BOARD FOR
GENERAL CONTRACTORS**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018



NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Board Members

BOARD MEMBERS (2019)

J. David Stike, Chairman

Lee Thomason, Vice Chairman

Benton Albritton

John Cooper

Lyle D. Gardner

Robyn Hicks-Guinn

Henry Lanier

Robert E. Lasater, Jr., P.E.

Lisa Piercy

EXECUTIVE DIRECTOR

C. Frank Wiesner, Executive Director/Secretary-Treasurer

LEGAL COUNSEL

Anna Baird Choi
Nichols, Choi & Lee, PLLC

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

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NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2019

Introduction

The following is a discussion and analysis of the North Carolina Licensing Board for General Contractors (the "Board") financial performance for the fiscal year ended December 31, 2019. 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. Please read it in conjunction with the financial statements and footnotes following this section which comprise our complete set of financial information.

Financial Highlights

During 2019, the Board's net position for its Operating Fund increased by \$288,367, or 4.64%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2018, the Board's net position for its Operating Fund increased by \$341,859, or 5.82%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2019, the Board's net position for its Recovery Fund increased by \$18,929, or 5.63%, due primarily to the Board paying less recovery fund claims than it did in the preceding year. During 2018, the Board's net position for its Recovery Fund decreased by \$322,624, or 48.96%, due primarily to the Board paying more recovery fund claims than it did in the preceding year.

During 2019, the Board's operating revenues for its Operating Fund increased by \$67,626, or 2.15%, due primarily to increases in renewal fees and income from consent orders. During 2018, the Board's operating revenues for its Operating Fund increased by \$169,254, or 5.67%, due primarily to increases in processing fees and new application fees. During 2019, the Board's operating revenues for its Recovery Fund decreased by \$59,024, or 10.12%, due to a decrease in recovery fees collected. During 2018, the Board's operating revenues for its Recovery Fund increased by \$56,841, or 10.79, due to an increase in recovery fees collected.

During 2019, the Board's non-operating expenses, net of non-operating revenues, for its Operating Fund decreased by \$23,253, or 34.18%, due to a decrease in interest expense on loans (as loan principal is amortizing) and due to an increase in interest income. During 2018, the Board's non-operating expenses, net of non-operating revenues, for its Operating Fund decreased by \$10,891, or 13.80%, due to a decrease in interest expense on loans (as loan principal is amortizing) and due to an increase in interest income. During 2019, the Board's non-operating revenues for its Recovery Fund decreased by \$970, or 79.51%, due to a decrease interest income. During 2018, the Board's non-operating revenues for its Recovery Fund increased by \$843, or 40.86%, due to an increase in noncapital gift income.

During 2019, the Board's operating expenses for its Operating Fund increased by \$144,371, or 5.26%, due primarily to an increase in legal fees and salaries. During 2018, the Board's operating expenses for its Operating Fund increased by \$90,756, or 3.42%, due primarily to increases in legal fees and computer consulting fees. During 2019, the Board's operating expenses for its Recovery Fund decreased by \$401,547 or 44.26%, due primarily to the Board awarding less Recovery Fund claims during 2019 than it did in the preceding year. During 2018, the Board's operating expenses for its Recovery Fund increased by \$531,180 or 141.22%, due primarily to the Board awarding more Recovery Fund claims during 2018 than it did in the preceding year.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2019

Overview of the Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of the following components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to Financial Statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Basic Financial Statements

The 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 current and non-current portions of assets, liabilities and net position of the Board. Current assets are those that are expected to be converted to cash within one year, and current liabilities are expected to be settled within one year.

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.

Condensed Financial Statements

The following table summarizes the Board's assets, liabilities and net position as of December 31, and its operating and non-operating revenues and expenses for the years then ended for the Operating Fund:

	2019	2018	2017
Current assets	\$ 4,515,798	\$ 4,338,696	\$ 4,072,274
Capital assets, net	5,946,276	6,090,477	6,239,773
Total assets	10,462,074	10,429,173	10,312,047
Current liabilities	2,142,160	2,119,688	2,032,651
Long-term liabilities	1,812,406	2,090,344	2,402,114
Total liabilities	3,954,566	4,210,032	4,434,765
Net position:			
Net investment in capital assets	3,887,002	3,722,757	3,572,685
Restricted	-	-	-
Unrestricted	2,620,506	2,496,384	2,304,597
Total net position	\$ 6,507,508	\$ 6,219,141	\$ 5,877,282
Operating revenues	\$ 3,220,274	\$ 3,152,648	\$ 2,983,394
Operating expenses	(2,881,757)	(2,742,749)	(2,651,993)
Operating income (loss)	338,517	409,899	331,401
Non-operating revenues (expenses)	(50,150)	(68,040)	(78,931)
Changes in net position	\$ 288,367	\$ 341,859	\$ 252,470

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2019

The following table summarizes the Board's assets, liabilities and net position as of December 31, and its operating and non-operating revenues and expenses for the years then ended for the Recovery Fund:

	2019	2018	2017
Current assets	\$ 354,662	\$ 334,768	\$ 655,989
Capital assets, net	578	1,745	2,960
Total assets	355,240	336,513	658,949
Total current liabilities	-	202	14
Net position:			
Net investment in capital assets	578	1,745	2,960
Restricted	354,662	334,566	655,975
Total net position	\$ 355,240	\$ 336,311	\$ 658,935
Operating revenues (recovery fees)	\$ 524,451	\$ 583,475	\$ 526,634
Operating expenses	(505,772)	(907,319)	(376,139)
Operating income (loss)	18,679	(323,844)	150,495
Non-operating income	250	1,220	2,063
Changes in net position	\$ 18,929	\$ (322,624)	\$ 152,558

Financial Analysis

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$6,507,508 for the Operating Fund and by \$355,240 for the Recovery Fund for the year ended December 31, 2019. The largest component of net position for the Operating Fund was capital assets. Net capital assets represented 91.38% of total net position for the Operating Fund. The largest component of net position for the Recovery Fund was cash and cash equivalents. Cash and cash equivalents represented 99.84% of the total net position for the Recovery Fund.

Events Affecting Future Operations

A committee appointed by the North Carolina Legislature, The Joint Legislative Administrative Procedure Oversight Committee, has been performing a study concerning the deregulation, elimination and consolidation of occupational licensing boards in the State of North Carolina. The effect of any resulting legislation on the Board's operations in future years is not certain at this time.

The continuing education requirement as defined by NCGS 87-10.2 which requires 8 hours of continuing education (CE) for general contractors for eligibility to renew a general contractors license for the 2021 license year is effective for all qualifiers for Building, Residential and Unclassified (Building qualifier only) classification of licenses. The CE must be completed by November 30, 2020. The Covid-19 Pandemic has delayed the start of CE classes which were anticipated to begin May 1, 2020. Until certainty re-emerges and providers of CE classes begin registering qualifiers for classes and classes are held, the ability for all 27,000 qualifiers completing the CE requirement by November 30, 2020 is unlikely. In the event licensees are unable to renew their license for 2021 due to failure to complete the CE requirement, there will be residual and potentially significant impact to the Board's authorized revenue source.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2019

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina Licensing Board for General Contractors, PO Box 17187, Raleigh, NC 27619.

North Carolina Licensing Board for General Contractors
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Raleigh, NC 27612
Phone: (919) 571-4183
By email at: info@nclbgc.org



Independent Auditor's Report

Members of the Board
North Carolina Licensing Board for General Contractors
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Licensing Board for General Contractors (the "Board"), which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 audit. We conducted our audit 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Licensing Board for General Contractors as of December 31, 2019, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the North Carolina Licensing Board for General Contractors and do not purport to and do not present fairly the financial position of the State of North Carolina as of December 31, 2019, or the changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the North Carolina Licensing Board for General Contractors as of December 31, 2018, were audited by other auditors whose report dated April 26, 2019, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 - 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 13, 2020

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Statements of Net Position

December 31, 2019 and 2018

	2019		2018	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Assets				
Current assets				
Cash and cash equivalents	\$ 4,498,190	\$ 354,662	\$ 4,318,537	\$ 334,511
Prepaid expenses	17,608	-	20,159	257
Total current assets	<u>4,515,798</u>	<u>354,662</u>	<u>4,338,696</u>	<u>334,768</u>
Capital assets				
Land and building	5,786,407	-	5,858,694	-
Furniture and office equipment	159,869	578	231,783	1,745
Total capital asset, net of depreciation	<u>5,946,276</u>	<u>578</u>	<u>6,090,477</u>	<u>1,745</u>
Total assets	<u>10,462,074</u>	<u>355,240</u>	<u>10,429,173</u>	<u>336,513</u>
Liabilities				
Current liabilities				
Accounts payable - operations	111,434	-	68,237	188
Due to other state agencies	-	-	898	14
Note payable - current portion	317,631	-	309,365	-
Accrued compensated absences - current portion	-	-	10,663	-
Unearned revenue	1,713,095	-	1,730,525	-
Total current liabilities	<u>2,142,160</u>	<u>-</u>	<u>2,119,688</u>	<u>202</u>
Long-term liabilities				
Note payable - long-term portion	1,741,643	-	2,058,355	-
Accrued compensated absences - long-term portion	70,763	-	31,989	-
Total long-term liabilities	<u>1,812,406</u>	<u>-</u>	<u>2,090,344</u>	<u>-</u>
Total liabilities	<u>3,954,566</u>	<u>-</u>	<u>4,210,032</u>	<u>202</u>
Net Position				
Net investment in capital assets	3,887,002	578	3,722,757	1,745
Restricted net position - expendable	-	104,662	-	84,566
Restricted net position - nonexpendable	-	250,000	-	250,000
Unrestricted net position	<u>2,620,506</u>	<u>-</u>	<u>2,496,384</u>	<u>-</u>
Total net position	<u>\$ 6,507,508</u>	<u>\$ 355,240</u>	<u>\$ 6,219,141</u>	<u>\$ 336,311</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019		2018	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Operating Revenues				
Fees, licenses and fines:				
Renewals	\$ 2,452,685	\$ -	\$ 2,365,900	\$ -
Processing fees	317,735	-	345,986	-
New application fees	219,074	-	249,675	-
Applications	1,711	-	3,310	-
Increase in limit fees	27,900	-	21,375	-
Recovery fees	-	524,451	-	583,475
Sales - publications	5,516	-	7,469	-
Administrative reimbursement from Recovery Fund	79,200	-	79,200	-
Other	116,453	-	79,733	-
Total operating revenues	<u>3,220,274</u>	<u>524,451</u>	<u>3,152,648</u>	<u>583,475</u>
Operating Expenses				
Salaries	1,050,871	-	976,081	-
Payroll taxes	80,334	-	84,351	-
Unemployment claim paid	-	-	598	-
Retirement contributions	62,138	-	56,224	-
Employee benefits	215,373	-	229,053	-
Contracted temporary services	-	-	716	-
Board member expenses	23,250	2,352	19,329	2,226
Hearing expenses	-	2,332	-	3,199
Office supplies and expenses	26,150	204	23,791	-
Legal, auditing, accounting and other professional fees	622,298	4,801	525,995	6,849
Computer and website support	214,544	-	226,291	-
Staff travel	18,016	-	17,247	-
Printing and copying	4,197	-	21,247	-
Postage	21,664	-	50,037	-
Telephone	18,313	156	18,238	171
Credit card processing fees	68,137	-	52,179	-
Building operating costs	91,753	-	86,121	-
Depreciation	144,201	1,167	150,328	1,215
Insurance and bonding	13,555	-	12,629	-

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Operating Expenses (continued)				
Vehicle leases (including operating costs)	\$ 60,660	\$ -	\$ 64,408	\$ -
Machine rental and maintenance	124,743	3,905	111,897	3,664
Dues and subscriptions	2,808	1,260	5,961	-
Contribution to NC Engineering Foundation	5,000	-	5,000	-
Claims paid	-	410,301	-	810,764
Administrative reimbursement to Operating Fund	-	79,200	-	79,200
Other	13,752	94	5,028	31
Total operating expenses	<u>2,881,757</u>	<u>505,772</u>	<u>2,742,749</u>	<u>907,319</u>
Operating income (loss)	<u>338,517</u>	<u>18,679</u>	<u>409,899</u>	<u>(323,844)</u>
Non-operating income (expenses)				
Interest income	16,456	250	8,955	1,220
Loss on disposition of capital assets	-	-	(1,311)	-
Interest expense	(66,606)	-	(75,684)	-
Total non-operating income (expenses)	<u>(50,150)</u>	<u>250</u>	<u>(68,040)</u>	<u>1,220</u>
Changes in net position	288,367	18,929	341,859	(322,624)
Net position - beginning of year	6,219,141	336,311	5,877,282	658,935
Net position - end of year	<u>\$ 6,507,508</u>	<u>\$ 355,240</u>	<u>\$ 6,219,141</u>	<u>\$ 336,311</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019		2018	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Cash flows from operating activities:				
Cash received from fees	\$ 3,001,675	\$ 524,451	\$ 3,158,446	\$ 583,475
Cash received from operating revenues	201,169	-	166,402	-
Cash payments to employees for services (including benefits)	(1,380,605)	-	(1,477,451)	-
Cash payment to suppliers of good and services	(1,237,724)	(502,198)	(1,174,163)	(903,947)
Cash payments for other operating expenses	(46,266)	(2,352)	(41,576)	(2,226)
Net cash provided by (used in) operating activities	<u>538,249</u>	<u>19,901</u>	<u>631,658</u>	<u>(322,698)</u>
Cash flows from capital and related financing activities:				
Proceeds from disposition of capital assets	-	-	400	-
Acquisition of capital assets	-	-	(2,743)	-
Principal payments on loans	(308,446)	-	(299,368)	-
Interest payments on loans	(66,606)	-	(75,684)	-
Net cash provided used in related financing activities	<u>(375,052)</u>	<u>-</u>	<u>(377,395)</u>	<u>-</u>
Cash flows from investing activities:				
Interest earnings	<u>16,456</u>	<u>250</u>	<u>8,955</u>	<u>1,220</u>
Net cash provided by capital and related investing activities	<u>16,456</u>	<u>250</u>	<u>8,955</u>	<u>1,220</u>
Net increase (decrease) in cash	179,653	20,151	263,218	(321,478)
Cash and cash equivalents - beginning of year	<u>4,318,537</u>	<u>334,511</u>	<u>4,055,319</u>	<u>655,989</u>
Cash and cash equivalents - end of year	<u>\$ 4,498,190</u>	<u>\$ 354,662</u>	<u>\$ 4,318,537</u>	<u>\$ 334,511</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	<u>\$ 338,517</u>	<u>\$ 18,679</u>	<u>\$ 409,899</u>	<u>\$ (323,844)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	144,201	1,167	150,328	1,215
Changes in assets and liabilities:				
Prepaid expenses	2,551	257	(3,204)	(257)
Accounts payable	42,299	(202)	33,579	188
Unearned revenue	(17,430)	-	172,200	-
Other accrued liabilities	28,111	-	(131,144)	-
Total adjustments	<u>199,732</u>	<u>1,222</u>	<u>221,759</u>	<u>1,146</u>
Net cash provided (used in) operating activities	<u>\$ 538,249</u>	<u>\$ 19,901</u>	<u>\$ 631,658</u>	<u>\$ (322,698)</u>
Supplemental disclosure of cash flow information:				
Interest paid on note	<u>\$ 66,606</u>	<u>\$ -</u>	<u>\$ 75,684</u>	<u>\$ -</u>
Supplemental disclosure of noncash activities:				
Capital asset write-offs	<u>\$ (112,208)</u>	<u>\$ -</u>	<u>\$ (1,711)</u>	<u>\$ -</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The North Carolina Licensing Board for General Contractors (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 87 of the North Carolina General Statutes. The Board is composed of nine members who are appointed by the Governor of the State of North Carolina.

The Board is established to maintain minimum standards for services provided by general contractors.

The Board's operations are financed with self-generated revenues from fees charged to licensees.

On March 10, 1925, upon the creation of the Board pursuant to Article I, Chapter 87 of the General Statutes of the State of North Carolina, the Board began operations through its Operating Fund. The Board's Operating Fund has the right to retain as a reserve at least 10% of the total expense it incurs for each year's operation to meet any emergency that may arise. Any surplus may be paid over to the Greater University of North Carolina for the use of the School of Engineering through the North Carolina Engineering Foundation. The revenues and expenses for the Operating Fund are shown as a proprietary (enterprise) fund.

On October 1, 1991, the Board established the Homeowners Recovery Fund (the "Recovery Fund"), as mandated by Section 87-15 of the General Statutes of the State of North Carolina. The North Carolina Licensing Board for General Contractors is responsible for the administration and maintenance of the Recovery Fund pursuant to the provisions of G.S. 87-15. The Recovery Fund reimburses the Board's Operating Fund for administrative costs on a monthly basis. The purpose of the fund is to reimburse homeowners who have suffered a reimbursable loss under the statute in constructing or altering a single-family residential dwelling unit. Accordingly, it is customary for the Board to have a number of such claims pending. The Board may reject or allow part or all of a claim based on the amount of money in the Recovery Fund. The Recovery Fund is required by statute to maintain a minimum balance of \$250,000. The revenues and expenses for the Recovery Fund are shown as a proprietary (enterprise) fund. The Homeowners Recovery Fund is a restricted fund with expendable and nonexpendable components.

Financial Reporting Entity

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

The accompanying financial statements present all funds and activities for which the Board is responsible.

Basis of Presentation

The accompanying financial statements have been 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 LICENSING BOARD FOR GENERAL CONTRACTORS

Notes to Financial Statements

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

Basis of Presentation (Continued)

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 are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured, and depreciation is recorded as a cost of operations. 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 Statements of Revenues, Expenses, and Changes in Net Position classify the Board's revenues as operating or non-operating revenues. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license fees and includes activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred 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 consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities, and are classified as non-operating in the financial statements.

Revenue Recognition - Recovery Fund - Pursuant to Section 87-15 of the General Statutes of North Carolina, revenue of the Homeowners Recovery Fund is derived from fees collected by city and county inspectors for the issuance of permits for the construction or alteration of certain single-family residential dwelling units. Revenues earned but uncollected at year end cannot be determined or reasonably estimated, and accordingly, revenues of the Homeowners Recovery Fund are recorded when collected.

Changes in Financial Accounting and Reporting

For the fiscal year ended December 31, 2019, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*.

GASB No. 88 improves the consistency in the information disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and provides financial statement users with additional essential information about debt. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt are disclosed.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Notes to Financial Statements

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

Cash and Cash Equivalents

This classification includes cash on deposit with financial institutions and money market accounts.

Compensated Absences (Vacation and Sick Leave)

Until May 1, 2015, Board policy (former policy) allowed for all eligible employees to accumulate up to thirty days earned vacation and such leave was fully vested when earned; and at the end of each calendar year, accrued vacation leave in excess of the limits were transferred and added to sick leave balances. Further, until May 1, 2015, the Board's sick leave policy provided for an unlimited accumulation of earned sick leave, however, the sick leave was not fully vested when earned, but was only payable when taken, or on retirement upon attaining the age of 59 1/2 years. This former policy is still in place for employees hired prior to May 1, 2015. On May 1, 2015, the Board adopted a new policy for vacation and sick leave (referred to as PTO, or paid time off) for employees hired on or after that date, wherein an employee can accumulate 10 to 16 hours per month with a maximum accumulation of 120 to 192 hours per year (dependent on years of service), such leave being fully forfeitable if not fully used at June 30 of each year. On July 1, 2016, the board amended the foregoing policy wherein, as of July 1, 2016, an employee can accumulate 10 to 16 hours per month with a maximum accumulation of 120 to 192 hours per year (dependent on years of service), such leave being cumulative up to a maximum of 240 hours at the end of any year, with any leave balance in excess of 240 hours being forfeitable if not fully used at June 30 of each year (except there is a provision for exception to the maximum carryover hours if written pre-approval is obtained from the appropriate authoritative management official).

Generally, the Board has no obligation for accumulated sick leave until it is actually taken, or until retirement upon attaining the age of 59 1/2 years (for those employees hired before May 1, 2015), therefore, no accrual for sick leave is made unless the affected employee(s) has attained the specified retirement age and has officially retired or given notice of their retirement. As of December 31, 2019 and 2018, the Board has an unrecorded contingent liability for sick leave in the amount of \$213,704 and \$179,245, respectively.

Amounts paid to employees for accumulated sick leave under the former vacation and sick leave policy amounted to \$0 and \$9,386 during the years ended December 31, 2019 and 2018, respectively. These amounts are included in Salaries in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Capital Assets

Property and equipment items are stated at cost and are being depreciated over their useful lives on a straight-line basis. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction. The Board capitalizes assets that have a value or cost of \$2,000 or greater at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets, estimated as follows: building and improvements, 10 to 75 years and office furniture and equipment, 5 to 10 years.

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the financial records and any gain or loss on the disposition is reflected as a non-operating activity for the year.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Notes to Financial Statements

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

Unearned Revenue

The Board's fees are assessed and collected on a fiscal year basis, which corresponds with the Board's accounting period. Licenses are renewed for a period of one fiscal year. License renewal fees received in advance are deferred and recognized as revenue over the one year period to which they relate.

Net Position

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any loan proceeds that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted - This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The Homeowners Recovery Fund is a restricted fund with expendable and nonexpendable components.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets. The Board has designated a portion of unrestricted net position for legal expenses in the amount of \$600,000 and for accrued compensated leave due to employees upon termination in the amount of \$253,000 as of December 31, 2019. The amount designated for accrued compensated leave is maintained in a separate bank account which is included in cash and cash equivalents in the accompanying statement of net position.

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 and disclosures of contingent 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 and assumptions, resulting in adjustments in future periods.

NOTE 2 - DEPOSITS

The Board's deposits include cash on deposit with financial institutions and money market accounts. At December 31, 2019, the Board's Operating Fund deposits in commercial financial institutions had a carrying value of \$4,498,190 and a bank balance of \$4,421,360. At December 31, 2019, the Board's Recovery Fund deposits in commercial financial institutions had a carrying value of \$354,662 and a bank balance of \$356,057.

The Board is subject to the following risks:

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. The Board's deposits at each commercial bank are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. As of December 31, 2019, the uninsured balances were \$3,921,360 and \$106,057 for the Board's Operating Fund and Recovery Fund, respectively.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS**Notes to Financial Statements****NOTE 3 - CAPITAL ASSETS**

Capital assets consist of the following:

	Cost 12/31/18	Acquisitions	Disposals	Cost 12/31/19	Accumulated Depreciation	Net Amount
Land	\$ 1,078,039	\$ -	\$ -	\$ 1,078,039	\$ -	\$ 1,078,039
Building	5,376,861	-	-	5,376,861	670,974	4,705,887
Furniture/ equipment	954,997	-	112,209	842,788	679,860	162,928
	<u>\$ 7,409,897</u>	<u>\$ -</u>	<u>\$ 112,209</u>	<u>\$ 7,297,688</u>	<u>\$ 1,350,834</u>	<u>\$ 5,946,854</u>

	Cost 12/31/17	Acquisitions	Disposals	Cost 12/31/18	Accumulated Depreciation	Net Amount
Land	\$ 1,078,039	\$ -	\$ -	\$ 1,078,039	\$ -	\$ 1,078,039
Building	5,376,861	-	-	5,376,861	596,206	4,780,655
Furniture/ equipment	1,111,852	2,743	159,598	954,997	721,469	233,528
	<u>\$ 7,566,752</u>	<u>\$ 2,743</u>	<u>\$ 159,598</u>	<u>\$ 7,409,897</u>	<u>\$ 1,317,675</u>	<u>\$ 6,092,222</u>

Depreciation expense was \$145,368 and \$151,543 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 - OPERATING LEASES

The Board leases office equipment, computer equipment and vehicles under various operating leases. Total rent expense charged to operations under lease agreements was \$142,921 and \$140,148 in 2019 and 2018, respectively. The Board entered into its lease agreement for vehicles during the year ended December 31, 2017. The Board leased six sport utility vehicles for Board management and staff investigators' use. Rental commitments under noncancelable operating leases at December 31, 2019 are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 123,418
2021	93,684
2022	38,552
2023	8,817
2024	5,848
	<u>\$ 270,319</u>

NOTE 5 - NOTE PAYABLE

The Board entered into a loan agreement with a local financial institution to fund the purchase of the land and office building in which it operates. The note is due in monthly installments of \$31,254, at 2.95% interest, through December 17, 2025 and is collateralized by the land and building. The original issuance amount for this loan was \$4,500,000. The loan was refinanced with a lower interest rate and a lower payment amount effective January 2016.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Notes to Financial Statements

NOTE 5 - NOTE PAYABLE (Continued)

The estimated maturities of debt for each of the years subsequent to December 31, 2019, are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 317,631	\$ 57,421
2021	327,431	47,621
2022	337,360	37,692
2023	347,589	27,463
2024	358,073	16,979
Thereafter	371,190	6,065
	<u>\$2,059,274</u>	<u>\$ 193,241</u>

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities (note payable and accrued compensated absences) for the years ended December 31, 2019 and 2018 is presented as follows.

	<u>Balance</u> <u>12/31/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2019</u>	<u>Long-term</u> <u>Portion</u>	<u>Current</u> <u>Portion</u>
Note payable	\$ 2,367,720	\$ -	\$ 308,446	\$ 2,059,274	\$ 1,741,643	\$ 317,631
Compensated absences	42,652	93,324	65,213	70,763	70,763	-
	<u>\$2,410,372</u>	<u>\$ 93,324</u>	<u>\$ 373,659</u>	<u>\$ 2,130,037</u>	<u>\$ 1,812,406</u>	<u>\$ 317,631</u>

	<u>Balance</u> <u>12/31/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2018</u>	<u>Long-term</u> <u>Portion</u>	<u>Current</u> <u>Portion</u>
Note payable	\$ 2,667,088	\$ -	\$ 299,368	\$ 2,367,720	\$ 2,058,355	\$ 309,365
Compensated absences	173,796	37,806	168,950	42,652	31,989	10,663
	<u>\$2,840,884</u>	<u>\$ 37,806</u>	<u>\$ 468,318</u>	<u>\$ 2,410,372</u>	<u>\$ 2,090,344</u>	<u>\$ 320,028</u>

NOTE 7 - PENSION AND RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS

On June 1, 1983, the General Assembly of North Carolina enacted legislation which excludes certain licensing boards (including the North Carolina Licensing Board for General Contractors) from membership in the Teachers' and State Employees' Retirement System (TSERS) of North Carolina. Accordingly, the Board has no employees eligible to participate in the Teachers' and State Employees' Retirement System of North Carolina (TSERS). Additionally, the Board has no previously employed persons eligible to participate in TSERS who qualify for postemployment benefits. The Board has established a separate retirement plan for its employees. The Board assumes no liability for retirement benefits provided other than its required contributions.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Notes to Financial Statements

NOTE 7 - PENSION AND RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS (Continued)

IRC 414(h) Plan

Effective January 1, 2001, the Board established a salary reduction, defined contribution retirement savings plan in accordance with Internal Revenue Code Section 414(h). During 2019, eighteen employees were covered under the plan. Only the Board and Board employees contribute to the plan, and only the Board has the authority to authorize and amend the plan. There are no forfeitures inuring to other employees under this type plan. Eligible employees must contribute at least 6% of their qualifying compensation each year and the Board matches those contributions 100%. Employees' contributions are immediately 100% vested; the Board's contributions are 100% vested after 5 years of credited service.

The Board's total covered payroll for 2019 and 2018 was \$1,050,871 and \$976,082, respectively. The total contribution for the year ended December 31, 2019 was \$122,792 which consisted of \$62,138 from the Board and \$60,654 from employees. The total contribution for the year ended December 31, 2018 was \$126,447, which consisted of \$56,224 from the Board and \$70,223 from employees.

NOTE 8 - ADMINISTRATIVE REIMBURSEMENT FROM RECOVERY FUND TO OPERATING FUND

The Board provides office space and administrative and clerical services for the Recovery Fund's operation. A monthly administrative fee was reimbursed to the Board's Operating Fund for the fiscal years ended December 31, 2019 and 2018. The annual administrative fee was \$79,200 for 2019 and 2018. Additionally, direct operating expenses of the Recovery Fund such as professional fees, and specifically identifiable office expenses are paid from the Recovery Fund's separately maintained special account.

NOTE 9 - 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. These exposures to loss are handled by participation in state-administered risk programs and self retention of certain risks. Additionally, the Board protects itself from exposure to potential loss through the purchase of commercial insurance coverage. There have been no significant reductions in insurance coverage from coverage in the prior year, and no insurance claims (other than claims by employees for health related coverages) were filed during any of the last three fiscal years.

NOTE 10 - CONTINGENCIES

Disciplinary Hearings

The Board is involved in a number of disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years ended December 31, 2019 or 2018.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Notes to Financial Statements

NOTE 10 - CONTINGENCIES (Continued)

Recovery Fund Claims

The Recovery Fund of the North Carolina Licensing Board for General Contractors is presented with a number of claims throughout each year requesting reimbursement for reimbursable losses as defined under North Carolina General Statute 87-15. There were no awarded but unpaid claims payable at December 31, 2019 and 2018. There were \$1,477,724 and \$427,739 of pending but unawarded claims at December 31, 2019 and 2018, respectively. Further, there were incurred but unreported losses at each year end which are statistically inestimable. The Board may reject or allow part or all of a claim based on the amount of money in the Recovery Fund. Accordingly, in the opinion of management of the Board, the resulting liabilities of such claims do not materially affect the Board's operations, changes in financial position, or cash flows for the years ended December 31, 2019 or 2018.

The Board has a contingent liability for sick leave as disclosed in Note 1 - Compensated Absences (Vacation and Sick Leave).

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 13, 2020, which is the date the financial statements were available to be issued. Management discovered no other subsequent events that should be disclosed other than the item noted below.

The Board's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (Covid-19), which has been declared a pandemic by the World Health Organization. As a result of the pandemic, it may be difficult for qualifiers to complete the new continuing education (CE) requirement by November 30, 2020. This situation may negatively affect the Board's renewal income since the CE requirement must be met for the qualifier to renew their 2021 contractor's license.

The Board's audit was conducted in approximately 130 hours at a cost of \$16,000.