

**NORTH CAROLINA LICENSING BOARD FOR
GENERAL CONTRACTORS**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020



NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Board Members

BOARD MEMBERS (2021)

Lee Thomason, Chairman

Lisa Piercy, Vice Chair

Benton Albritton

John Cooper

Leon Meyers

Robyn Hicks-Guinn

Henry Lanier

Elizabeth Phipps

George Ratchford

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

Table of Contents

	<u>Page No.</u>
Management's Discussion and Analysis	1 - 4
Independent Auditor's Report	5 - 6
<i>Financial Statements</i>	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8 - 9
Statements of Cash Flow	10
Notes to Financial Statements	11 - 18

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2021

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, 2021. 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 2021, the Board's net position for its Operating Fund increased by \$288,602, or 4.0%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2020, the Board's net position for its Operating Fund increased by \$711,548, or 10.9%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2021, the Board's net position for its Recovery Fund decreased by \$136,898, or 22.5%, due primarily to the Board paying more recovery fund claims than it did in the preceding year. During 2020, the Board's net position for its Recovery Fund increased by \$254,242, or 71.6%, due primarily to the Board paying less recovery fund claims than it did in the preceding year.

During 2021, the Board's operating revenues for its Operating Fund decreased by \$16,280, or 0.4%, due primarily to decreases in renewal and processing fees, offset by increases in new application and continuing education fees. During 2020, the Board's operating revenues for its Operating Fund increased by \$707,347, or 21.97%, due primarily to new continuing education fees, increases in renewal fees and income from consent orders. During 2021, the Board's operating revenues for its Recovery Fund increased by \$119,201, or 19.1%, due to an increase in recovery fees collected. During 2020, the Board's operating revenues for its Recovery Fund increased by \$99,062, or 18.9%, due to an increase in recovery fees collected.

During 2021, the Board's non-operating expenses, net of non-operating revenues, for its Operating Fund decreased by \$1,491, or 3.07%, due to a decrease in interest expense on loans (as loan principal is amortizing) and due to an increase in interest income. During 2020, the Board's non-operating expenses, net of non-operating revenues, for its Operating Fund decreased by \$1,541, or 3.07%, due to a decrease in interest expense on loans (as loan principal is amortizing) and due to an increase in interest income. During 2021, the Board's non-operating revenues for its Recovery Fund decreased by \$859, or 68.89%, due to a decrease in interest income. During 2020, the Board's non-operating revenues for its Recovery Fund increased by \$997, or 398.8%, due to an increase in interest income.

During 2021, the Board's operating expenses for its Operating Fund increased by \$408,157, or 12.9%, due primarily to a new Public Awareness campaign and an increase in salaries. During 2020, the Board's operating expenses for its Operating Fund increased by \$285,707, or 9.9%, due primarily to an increase in continuing education fees and salaries. During 2021, the Board's operating expenses for its Recovery Fund increased by \$509,482 or 137.5%, due primarily to the Board awarding more Recovery Fund claims during 2021 than it did in the preceding year. During 2020, the Board's operating expenses for its Recovery Fund decreased by \$135,254 or 26.7%, due primarily to the Board awarding less Recovery Fund claims during 2020 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, 2021

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:

	2021	2020	2019
Current assets	\$ 5,023,751	\$ 5,011,951	\$ 4,515,798
Capital assets, net	5,716,098	5,819,202	5,946,276
Total assets	10,739,849	10,831,153	10,462,074
Current liabilities	2,058,414	2,109,332	2,142,160
Long-term liabilities	1,173,777	1,502,765	1,812,406
Total liabilities	3,232,191	3,612,097	3,954,566
Net position:			
Net investment in capital assets	4,301,886	4,077,821	3,887,002
Unrestricted	3,205,772	3,141,235	2,620,506
Total net position	\$ 7,507,658	\$ 7,219,056	\$ 6,507,508
Operating revenues	\$ 3,911,341	\$ 3,927,621	\$ 3,220,274
Operating expenses	(3,575,621)	(3,167,464)	(2,881,757)
Operating income	335,720	760,157	338,517
Non-operating expenses	(47,118)	(48,609)	(50,150)
Changes in net position	\$ 288,602	\$ 711,548	\$ 288,367

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2021

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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 472,584	\$ 609,829	\$ 354,662
Capital assets, net	-	-	578
Total assets	<u>472,584</u>	<u>609,829</u>	<u>355,240</u>
Current liabilities	-	347	-
Net position:			
Net investment in capital assets	-	-	578
Restricted	472,584	609,482	354,662
Total net position	<u>\$ 472,584</u>	<u>\$ 609,482</u>	<u>\$ 355,240</u>
Operating revenues (recovery fees)	\$ 742,714	\$ 623,513	\$524,451
Operating expenses	(880,000)	(370,518)	(505,772)
Operating income (loss)	<u>(137,286)</u>	<u>252,995</u>	<u>18,679</u>
Non-operating income	388	1,247	250
Changes in net position	<u>\$ (136,898)</u>	<u>\$ 254,242</u>	<u>\$ 18,929</u>

Financial Analysis

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$7,507,658 for the Operating Fund and by \$472,584 for the Recovery Fund for the year ended December 31, 2021. The largest component of net position for the Operating Fund was capital assets. Net capital assets represented 76.1% 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 100% 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.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2021

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
5400 Creedmoor Road
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

Opinion

We have audited the accompanying financial statements of the North Carolina Licensing Board for General Contractors (the "Board"), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the 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 Licensing Board for General Contractors as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Licensing Board for General Contractors 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Licensing Board for General Contractors' ability to continue as a going concern within one year after the date that 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

Misstatements 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 North Carolina Licensing Board for General Contractors' 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 North Carolina Licensing Board for General Contractors' 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 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, 2021, or the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 - 4 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 20, 2022

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Statements of Net Position

December 31, 2021 and 2020

	2021		2020	
	Proprietary Funds		Proprietary Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Assets				
Current assets				
Cash and cash equivalents	\$ 4,999,370	\$ 472,584	\$ 4,994,705	\$ 609,829
Prepaid expenses	24,381	-	17,246	-
Total current assets	5,023,751	472,584	5,011,951	609,829
Capital assets				
Land and building	5,642,466	-	5,714,120	-
Furniture and office equipment	73,632	-	105,082	-
Total capital asset, net of depreciation	5,716,098	-	5,819,202	-
Total assets	10,739,849	472,584	10,831,153	609,829
Liabilities				
Current liabilities				
Accounts payable - operations	96,254	-	147,473	347
Note payable - current portion	337,360	-	327,169	-
Unearned revenue	1,624,800	-	1,634,690	-
Total current liabilities	2,058,414	-	2,109,332	347
Long-term liabilities				
Note payable - long-term portion	1,076,852	-	1,414,212	-
Accrued compensated absences - long-term portion	96,925	-	88,553	-
Total long-term liabilities	1,173,777	-	1,502,765	-
Total liabilities	3,232,191	-	3,612,097	347
Net Position				
Net investment in capital assets	4,301,886	-	4,077,821	-
Restricted net position - expendable	-	222,584	-	359,482
Restricted net position - nonexpendable	-	250,000	-	250,000
Unrestricted net position	3,205,772	-	3,141,235	-
Total net position	\$ 7,507,658	\$ 472,584	\$ 7,219,056	\$ 609,482

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021		2020	
	Proprietary Funds		Proprietary Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Operating Revenues				
Fees, licenses and fines:				
Renewals	\$ 2,357,475	\$ -	\$ 2,462,775	\$ -
Processing fees	309,545	-	334,510	-
New application fees	277,865	-	213,384	-
Applications	13	-	1,259	-
Increase in limit fees	67,725	-	46,750	-
Recovery fees	-	742,714	-	623,513
Continuing education fees	740,315	-	703,369	-
Sales - publications	2,244	-	3,867	-
Administrative reimbursement from Recovery Fund	79,200	-	79,200	-
Other	76,959	-	82,507	-
Total operating revenues	3,911,341	742,714	3,927,621	623,513
Operating Expenses				
Salaries	1,287,568	-	1,141,568	-
Payroll taxes	97,654	-	87,026	-
Unemployment claim paid	388	-	-	-
Retirement contributions	72,874	-	66,017	-
Employee benefits	257,792	-	241,437	-
Contracted temporary services	-	-	21,584	-
Board member expenses	22,769	1,851	14,951	600
Hearing expenses	-	2,988	-	924
Office supplies and expenses	10,874	-	15,042	-
Legal, auditing, accounting and other professional fees	662,567	2,730	665,553	2,079
Computer and website support	295,411	-	341,346	-
Continuing education	83,546	-	77,565	-
Staff travel	21,118	-	9,641	-
Printing and copying	1,725	-	4,991	-
Postage	20,294	-	17,073	-
Telephone	23,858	188	23,258	153
Credit card processing fees	114,898	-	100,804	-
Building operating costs	85,793	-	83,079	-
Depreciation	106,236	-	132,914	578
Insurance and bonding	12,873	-	13,551	-

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years Ended December 31, 2021 and 2020

	2021		2020	
	Enterprise Funds		Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Operating Expenses (Continued)				
Vehicle leases (including operating costs)	\$ 65,665	\$ -	\$ 60,827	\$ -
Machine rental and maintenance	39,319	724	31,975	1,843
Dues and subscriptions	9,063	70	4,730	1,260
Contribution to NC Engineering Foundation	25,000	-	10,000	-
Claims paid	-	792,241	-	283,879
Administrative reimbursement to Operating Fund	-	79,200	-	79,200
Public awareness education	234,271	-	-	-
Other	24,065	8	2,532	2
Total operating expenses	<u>3,575,621</u>	<u>880,000</u>	<u>3,167,464</u>	<u>370,518</u>
Operating income (loss)	<u>335,720</u>	<u>(137,286)</u>	<u>760,157</u>	<u>252,995</u>
Non-operating income (expenses)				
Interest income	503	388	8,550	1,247
Interest expense	(47,621)	-	(57,159)	-
Total non-operating income (expenses)	<u>(47,118)</u>	<u>388</u>	<u>(48,609)</u>	<u>1,247</u>
Changes in net position	288,602	(136,898)	711,548	254,242
Net position - beginning of year	7,219,056	609,482	6,507,508	355,240
Net position - end of year	<u>\$ 7,507,658</u>	<u>\$ 472,584</u>	<u>\$ 7,219,056</u>	<u>\$ 609,482</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021		2020	
	Proprietary Funds		Proprietary Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Cash flows from operating activities:				
Cash received from fees	\$ 3,743,048	\$ 742,714	\$ 3,683,642	\$ 623,513
Cash received from operating revenues	158,403	-	165,574	-
Cash payments to employees for services (including benefits)	(1,707,904)	-	(1,518,258)	-
Cash payment to suppliers of good and services	(1,742,576)	(878,496)	(1,427,509)	(368,993)
Cash payments for other operating expenses	(68,887)	(1,851)	(34,592)	(600)
Net cash provided by (used in) operating activities	<u>382,084</u>	<u>(137,633)</u>	<u>868,857</u>	<u>253,920</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(3,132)	-	(5,840)	-
Principal payments on loans	(327,169)	-	(317,893)	-
Interest payments on loans	(47,621)	-	(57,159)	-
Net cash used in capital and related financing activities	<u>(377,922)</u>	<u>-</u>	<u>(380,892)</u>	<u>-</u>
Cash flows from investing activities:				
Interest earnings	503	388	8,550	1,247
Net cash provided by investing activities	<u>503</u>	<u>388</u>	<u>8,550</u>	<u>1,247</u>
Net increase (decrease) in cash	4,665	(137,245)	496,515	255,167
Cash and cash equivalents - beginning of year	4,994,705	609,829	4,498,190	354,662
Cash and cash equivalents - end of year	<u>\$ 4,999,370</u>	<u>\$ 472,584</u>	<u>\$ 4,994,705</u>	<u>\$ 609,829</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 335,720	\$ (137,286)	\$ 760,157	\$ 252,995
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	106,236	-	132,914	578
Changes in assets and liabilities:				
Prepaid expenses	(7,135)	-	362	-
Accounts payable	(51,219)	(347)	36,039	347
Unearned revenue	(9,890)	-	(78,405)	-
Other accrued liabilities	8,372	-	17,790	-
Total adjustments	<u>46,364</u>	<u>(347)</u>	<u>108,700</u>	<u>925</u>
Net cash provided by (used in) operating activities	<u>\$ 382,084</u>	<u>\$ (137,633)</u>	<u>\$ 868,857</u>	<u>\$ 253,920</u>
Supplemental disclosure of cash flow information:				
Interest paid on note	<u>\$ 47,621</u>	<u>\$ -</u>	<u>\$ 57,159</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 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 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.

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.

In 2020, the Board approved a 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 following license year and is effective for all qualifiers for Building, Residential and Unclassified (Building qualifier only) classification of licenses. The CE must be completed by November 30th for the following license year.

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.

Cash and Cash Equivalents

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

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
Notes to Financial Statements

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

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 amounts 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, 2021 and 2020, the Board has an unrecorded contingent liability for sick leave in the amount of \$237,832 and \$235,753, respectively.

As of December 31, 2021 and 2020, the Board paid \$4,885 and \$0, respectively, to employees for accumulated sick leave under the former vacation and sick leave policy.

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 \$250,000 as of December 31, 2021. 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, 2021, the Board's Operating Fund deposits in commercial financial institutions had a carrying value of \$4,999,370 and a bank balance of \$5,001,920. At December 31, 2021, the Board's Recovery Fund deposits in commercial financial institutions had a carrying value of \$472,584 and a bank balance of \$472,584.

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, 2021, the uninsured balances were \$4,501,920 and \$222,583 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 12/31/2020	Acquisitions	Disposals	Cost 12/31/2021	Accumulated Depreciation	Net Amount
Land	\$ 1,078,039	\$ -	\$ -	\$ 1,078,039	\$ -	\$ 1,078,039
Building	5,376,861	-	-	5,376,861	814,420	4,562,441
Furniture/ equipment	848,628	3,132	-	851,760	776,142	75,618
	<u>\$ 7,303,528</u>	<u>\$ 3,132</u>	<u>\$ -</u>	<u>\$ 7,306,660</u>	<u>\$ 1,590,562</u>	<u>\$ 5,716,098</u>

	Cost 12/31/2019	Acquisitions	Disposals	Cost 12/31/2020	Accumulated Depreciation	Net Amount
Land	\$ 1,078,039	\$ -	\$ -	\$ 1,078,039	\$ -	\$ 1,078,039
Building	5,376,861	-	-	5,376,861	742,766	4,634,095
Furniture/ equipment	842,788	5,840	-	848,628	741,560	107,068
	<u>\$ 7,297,688</u>	<u>\$ 5,840</u>	<u>\$ -</u>	<u>\$ 7,303,528</u>	<u>\$ 1,484,326</u>	<u>\$ 5,819,202</u>

Depreciation expense was \$106,236 and \$133,492 for the years ended December 31, 2021 and 2020, 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 \$93,600 and \$132,856 in 2021 and 2020, 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, 2021 are as follows:

<u>Years Ending December 31,</u>	
2022	\$ 45,252
2023	24,672
2024	21,343
2025	16,080
2026	9,380
	<u>\$ 116,727</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 secured 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, 2021, are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 337,360	\$ 37,692
2023	347,589	27,463
2024	358,073	16,979
2025	371,190	6,065
	<u>\$1,414,212</u>	<u>\$ 88,199</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, 2021 and 2020 is presented as follows.

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2021</u>	<u>Long-term</u> <u>Portion</u>	<u>Current</u> <u>Portion</u>
Note payable	\$ 1,741,381	\$ -	\$ 327,169	\$ 1,414,212	\$ 1,076,852	\$ 337,360
Compensated absences	88,553	107,663	99,291	96,925	96,925	-
	<u>\$1,829,934</u>	<u>\$ 107,663</u>	<u>\$ 426,460</u>	<u>\$ 1,511,137</u>	<u>\$1,173,777</u>	<u>\$ 337,360</u>

	<u>Balance</u> <u>12/31/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2020</u>	<u>Long-term</u> <u>Portion</u>	<u>Current</u> <u>Portion</u>
Note payable	\$ 2,059,274	\$ -	\$ 317,893	\$ 1,741,381	\$ 1,414,212	\$ 327,169
Compensated absences	70,763	97,150	79,360	88,553	88,553	-
	<u>\$2,130,037</u>	<u>\$ 97,150</u>	<u>\$ 397,253</u>	<u>\$ 1,829,934</u>	<u>\$1,502,765</u>	<u>\$ 327,169</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 2021, nineteen 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 2021 and 2020 was \$1,283,333 and \$1,141,568, respectively. The total contribution for the year ended December 31, 2021 was \$164,036 which consisted of \$72,874 from the Board and \$91,162 from employees. The total contribution for the year ended December 31, 2020 was \$130,425 which consisted of \$65,579 from the Board and \$64,846 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, 2021 and 2020. The annual administrative fee was \$79,200 for 2021 and 2020. 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, 2021 or 2020.

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, 2021 and 2020. There were \$3,422,982 and \$2,159,473 of pending but unawarded claims at December 31, 2021 and 2020, 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, 2021 or 2020.

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 20, 2022, 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 audit was conducted in approximately 110 hours at a cost of \$17,200.