

**NORTH CAROLINA REAL ESTATE
COMMISSION**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NORTH CAROLINA REAL ESTATE COMMISSION

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NORTH CAROLINA REAL ESTATE COMMISSION
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

This section of the North Carolina Real Estate Commission's (the "Commission") financial report presents a narrative overview and analysis of the Commission's financial performance for the fiscal year ended June 30, 2016. Please read it in conjunction with the Commission's financial statements and notes to the financial statements which follow this section.

Financial Highlights

The Commission's operating revenues increased \$319,067 or 5.17%, attributable to an increase in all revenue streams from the gradual improvement in the real estate industry.

Operating Fund expenses increased by \$80,745 or 1.36%, attributable primarily to increases in personnel costs and supplies and equipment expense, offset by a decrease in interest expense. Recovery Fund expenses increased due to claims paid in the fiscal year ended June 30, 2016.

Net non-operating revenues decreased \$1,612 or (11.20)%.

As a result of this year's operations, the Commission's net position increased by \$343,419 or 4.92%. The net position of the Commission's Operating Fund increased by \$473,889. The net position of the Commission's Recovery Fund decreased by \$130,470, due primarily to the claims paid in the fiscal year ended June 30, 2016.

The Commission's Investment in Capital Assets balance (net of accumulated depreciation and related debt) was \$4,015,040, an increase of 7.60% from the prior year end. This increase was attributable in large part to a decrease in debt resulting from the Commission's additional principal payment on the line of credit.

Overview of the Financial Statements

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

The Commission's financial statements report activities for its Operating Fund and its Recovery Fund. The Recovery Fund is an Expendable Trust Fund established in 1979 by N.C.G.S. 93A-16. The Commission is responsible for the administration and maintenance of the Recovery Fund. The Recovery Fund and its function is described in detail in the Notes to the Financial Statements and its activities are reported in a separate column in the financial statements.

Basic Financial Statements

The Commission's financial statements report information about the Commission's operations using a single proprietary (enterprise) fund. Proprietary funds use the accrual method of accounting for operations. This method of presentation is similar to the private sector industry whereby the intent of the organization is the cost of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges.

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Basic Financial Statements (Continued)

The Statement of Net Position (page 6) presents all of the Commission's assets and liabilities and reports the difference between them as net position. Current and non-current portions of assets and liabilities are reported separately. Over time, increases or decreases in the Commission's net position is one indicator of whether its financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position (page 7) presents information on how the Commission's assets changed as a result of the fiscal year's operations.

The Statement of Cash Flows (page 8) presents information on how the Commission's cash changed as a result of the fiscal year's operations.

The Notes to the Financial Statements (page 9) are an integral part of the financial statements and provide additional information that is essential to a full understanding of the financial statements as a whole.

The following presents condensed financial statement information for the Commission for the past three fiscal years:

	2016	2015	2014
Current assets	\$ 8,602,878	\$ 8,259,639	\$ 8,340,251
Non-current assets	4,263,829	4,453,949	4,623,637
Deferred outflows of resources	46,722	65,500	37,738
Total assets	12,913,429	12,779,088	13,001,626
Current liabilities	4,432,823	4,270,934	4,171,482
Non-current liabilities	528,400	858,526	1,420,447
Deferred inflows of resources	9,972	50,813	-
Total liabilities	4,971,195	5,180,273	5,591,929
Invested in capital assets, net of related debt	4,015,040	3,730,160	3,299,848
Restricted	487,385	617,855	466,139
Unrestricted	3,439,809	3,250,800	3,643,710
Total net position	\$ 7,942,234	\$ 7,598,815	\$ 7,409,697
Operating revenues	\$ 6,488,112	\$ 6,169,045	\$ 6,014,325
Operating expenses	6,157,479	5,994,325	5,957,936
Operating income	330,633	174,720	56,389
Non-operating revenues	12,786	14,398	16,009
Changes in net position	\$ 343,419	\$ 189,118	\$ 72,398

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For the Fiscal Year Ended June 30, 2016

Events/Conditions (Expected to Impact) Affecting Future Operations

- A guarded economic environment, easily influenced by the stock market and U.S. and world events may impede or negate any gradual improvements in the real estate market and adversely impact revenue. Additionally, investment income remains at historic lows with no expectation of significant growth in the foreseeable future. The duration or severity of the impact of these factors, and the length of the recovery therefrom cannot be predicted.
- The total number of new licensees has gradually increased every year since FY12, when it was at its lowest point. This increase in licensees should have a positive effect on revenue.
- The number of licensees who move their license status to inactive or who do not complete their post-licensing requirements after initial licensure reduces the number of licensees completing continuing education requirements. This adversely affects continuing education student fee income. Therefore, this income fluctuates with licensees' expectations of success in the real estate market in the current economic environment.

Contacting the Commission

This financial report is designed to provide a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives and expends. If you have questions about this report or need additional information, contact the North Carolina Real Estate Commission, Administration Division, P.O. Box 17100, Raleigh, NC 27619-7100.

Independent Auditor's Report

Members of the Commission
North Carolina Real Estate Commission
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Real Estate Commission (the "Commission"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of June 30, 2016 and 2015, 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 Commission's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 Real Estate Commission as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements are presented only for the North Carolina Real Estate Commission and do not purport to and do not present fairly the financial position of the State of North Carolina as of June 30, 2016 and 2015, nor 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 - 3 and the Schedules of Proportionate Share of Net Pension Liability and Board Contributions Teachers' and State Employees' Retirement System on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
October 10, 2016

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Net Position
June 30, 2016 and 2015

	2016			2015		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
ASSETS:						
Current assets:						
Cash	\$ 4,901,703	\$ 35,531	\$ 4,937,234	\$ 4,308,253	\$ 266,767	\$ 4,575,020
Investments, current portion	2,952,055	501,586	3,453,641	3,125,530	350,861	3,476,391
Inventory	59,951	-	59,951	33,018	-	33,018
Accrued interest	2,752	247	2,999	2,833	227	3,060
Accounts receivable	32,683	-	32,683	35,272	-	35,272
Prepaid expenses	116,370	-	116,370	136,878	-	136,878
Total current assets	8,065,514	537,364	8,602,878	7,641,784	617,855	8,259,639
Non-current assets:						
Investments, less current portion	-	-	-	100,000	-	100,000
Capital assets, net of depreciation	4,263,829	-	4,263,829	4,353,949	-	4,353,949
Total non-current assets	4,263,829	-	4,263,829	4,453,949	-	4,453,949
Total assets	12,329,343	537,364	12,866,707	12,095,733	617,855	12,713,588
DEFERRED OUTFLOWS OF RESOURCES:						
Pension deferrals	17,368	-	17,368	23,592	-	23,592
Contributions to pension plan in current fiscal year	29,354	-	29,354	41,908	-	41,908
Total deferred outflows of resources	46,722	-	46,722	65,500	-	65,500
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	100,478	49,979	150,457	110,635	-	110,635
Unearned revenues	4,231,115	-	4,231,115	4,109,635	-	4,109,635
Accrued leave - current portion	51,251	-	51,251	50,664	-	50,664
Total current liabilities	4,382,844	49,979	4,432,823	4,270,934	-	4,270,934
Non-current liabilities:						
Line of credit	248,789	-	248,789	623,789	-	623,789
Net pension liability	32,061	-	32,061	14,069	-	14,069
Accrued leave - long-term portion	247,550	-	247,550	220,668	-	220,668
Total non-current liabilities	528,400	-	528,400	858,526	-	858,526
Total liabilities	4,911,244	49,979	4,961,223	5,129,460	-	5,129,460
DEFERRED INFLOWS OF RESOURCES:						
Pension deferrals	9,972	-	9,972	50,813	-	50,813
NET POSITION:						
Invested in capital assets, net of related debt	4,015,040	-	4,015,040	3,730,160	-	3,730,160
Restricted	-	487,385	487,385	-	617,855	617,855
Unrestricted	3,439,809	-	3,439,809	3,250,800	-	3,250,800
Total net position	\$ 7,454,849	\$ 487,385	\$ 7,942,234	\$ 6,980,960	\$ 617,855	\$ 7,598,815

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016			2015		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Operating revenues:						
License renewals	\$ 4,279,725	\$ -	\$ 4,279,725	\$ 4,212,950	\$ -	\$ 4,212,950
Application fees	485,860	-	485,860	389,540	-	389,540
Publication fees	292,911	-	292,911	218,688	-	218,688
Course registration fees	148,710	-	148,710	139,640	-	139,640
Continuing education course student fees	1,213,440	-	1,213,440	1,148,920	-	1,148,920
Certification fees	39,255	-	39,255	36,258	-	36,258
Miscellaneous	28,211	-	28,211	23,049	-	23,049
Total operating revenues	6,488,112	-	6,488,112	6,169,045	-	6,169,045
Operating expenses:						
Personnel	4,395,713	-	4,395,713	4,347,404	-	4,347,404
Commission	139,450	-	139,450	130,040	-	130,040
Building	167,767	-	167,767	160,231	-	160,231
Supplies and equipment	729,846	-	729,846	699,293	-	699,293
Education and examination	56,674	-	56,674	56,601	-	56,601
Professional services	54,484	-	54,484	57,351	-	57,351
Mail services	40,379	-	40,379	39,658	-	39,658
Credit card charges	144,233	-	144,233	135,810	-	135,810
Depreciation	222,252	-	222,252	227,976	-	227,976
Interest	12,119	-	12,119	22,195	-	22,195
Miscellaneous	63,121	47	63,168	68,734	10	68,744
Claims	-	131,394	131,394	-	49,022	49,022
Total operating expenses	6,026,038	131,441	6,157,479	5,945,293	49,032	5,994,325
Operating income (loss)	462,074	(131,441)	330,633	223,752	(49,032)	174,720
Non-operating revenues (expenses):						
Net investment income	15,758	971	16,729	14,054	748	14,802
Loss on disposal of equipment	(3,943)	-	(3,943)	(404)	-	(404)
Total non-operating revenues (expenses)	11,815	971	12,786	13,650	748	14,398
Changes in net position	473,889	(130,470)	343,419	237,402	(48,284)	189,118
Transfer to Recovery Fund	-	-	-	(200,000)	200,000	-
Net position - beginning of year	6,980,960	617,855	7,598,815	6,943,558	466,139	7,409,697
Net position - end of year	\$ 7,454,849	\$ 487,385	\$ 7,942,234	\$ 6,980,960	\$ 617,855	\$ 7,598,815

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016			2015		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Cash flows from operating activities:						
Cash received from fees	\$ 6,612,181	\$ -	\$ 6,612,181	\$ 6,247,791	\$ -	\$ 6,247,791
Cash payments to employees for services	(4,389,039)	-	(4,389,039)	(4,354,190)	-	(4,354,190)
Cash payments for operating expenses	(841,462)	-	(841,462)	(897,986)	-	(897,986)
Cash payments to suppliers of goods & services	(566,469)	-	(566,469)	(561,637)	-	(561,637)
Cash payments for Recovery Fund expenses	-	(81,462)	(81,462)	-	(49,032)	(49,032)
Net cash provided by (used in) operating activities	<u>815,211</u>	<u>(81,462)</u>	<u>733,749</u>	<u>433,978</u>	<u>(49,032)</u>	<u>384,946</u>
Cash flows from capital and related financing activities:						
Repayment of line of credit	(375,000)	-	(375,000)	(500,000)	-	(500,000)
Acquisition of capital assets	(136,075)	-	(136,075)	(158,692)	-	(158,692)
Transfer to Recovery Fund	-	-	-	(200,000)	200,000	-
Net cash provided by (used in) capital and related financing activities	<u>(511,075)</u>	<u>-</u>	<u>(511,075)</u>	<u>(858,692)</u>	<u>200,000</u>	<u>(658,692)</u>
Cash flows from investing activities:						
Purchases of investments	(3,295,414)	(150,725)	(3,446,139)	(3,468,627)	(350,861)	(3,819,488)
Sales of investments	3,568,889	-	3,568,889	3,491,767	400,299	3,892,066
Net investment income	15,839	951	16,790	12,984	714	13,698
Net cash provided by (used in) investing activities	<u>289,314</u>	<u>(149,774)</u>	<u>139,540</u>	<u>36,124</u>	<u>50,152</u>	<u>86,276</u>
Net increase (decrease) in cash	593,450	(231,236)	362,214	(388,590)	201,120	(187,470)
Cash - beginning of year	4,308,253	266,767	4,575,020	4,696,843	65,647	4,762,490
Cash - end of year	<u>\$ 4,901,703</u>	<u>\$ 35,531</u>	<u>\$ 4,937,234</u>	<u>\$ 4,308,253</u>	<u>\$ 266,767</u>	<u>\$ 4,575,020</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 462,074	\$ (131,441)	\$ 330,633	\$ 223,752	\$ (49,032)	\$ 174,720
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	222,252	-	222,252	227,976	-	227,976
Changes in assets and liabilities:						
Accounts receivable	2,589	-	2,589	(19,909)	-	(19,909)
Inventory	(26,933)	-	(26,933)	(9,656)	-	(9,656)
Prepaid expenses	20,508	-	20,508	(48,767)	-	(48,767)
Deferred outflows of resources	18,778	-	18,778	(27,762)	-	(27,762)
Accounts payable and accrued liabilities	(10,157)	49,979	39,822	(31,287)	-	(31,287)
Unearned revenues	121,480	-	121,480	98,655	-	98,655
Accrued leave	27,469	-	27,469	22,875	-	22,875
Net pension liability	17,992	-	17,992	(52,712)	-	(52,712)
Deferred inflows of resources	(40,841)	-	(40,841)	50,813	-	50,813
Total adjustments	<u>353,137</u>	<u>49,979</u>	<u>403,116</u>	<u>210,226</u>	<u>-</u>	<u>210,226</u>
Net cash provided by (used in) operating activities	<u>\$ 815,211</u>	<u>\$ (81,462)</u>	<u>\$ 733,749</u>	<u>\$ 433,978</u>	<u>\$ (49,032)</u>	<u>\$ 384,946</u>

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The North Carolina Real Estate Commission (the "Commission") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 93A of the North Carolina General Statutes (NCGS). The Commission is composed of nine members who are appointed by the Governor and the General Assembly of the State of North Carolina.

The Commission is established to maintain minimum standards for real estate brokerage services provided for transactions involving real property through the examination and licensure of all who engage in real estate brokerage.

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

On July 1, 1957, upon the creation of the Commission pursuant to Article I, Section 93A of the General Statutes of the State of North Carolina, the Commission began operations through its Operating Fund.

On September 1, 1979, the Commission transferred \$100,000 from its Operating Fund to establish the Real Estate Recovery Fund, a special fund as mandated by Article 2, Section 93A-16 of the General Statutes of the State of North Carolina. On June 23, 2011, the fund was expanded to the Real Estate Education and Recovery Fund (Recovery Fund). The North Carolina Real Estate Commission is responsible for the administration and maintenance of the Recovery Fund pursuant to the provisions of General Statute 93A-16. Effective June 30, 1987, the Commission may transfer to the Recovery Fund additional sums of money from whatever funds the Commission may have, provided that, if on December 31 of any year the amount remaining in the Recovery Fund is less than \$50,000. The Commission may determine that each person or entity licensed under this Chapter, when renewing his/her or its license, shall pay in addition to the license renewal fee, a fee not to exceed ten dollars (\$10.00) per broker as shall be determined by the Commission for the purpose of replenishing the Fund. Further, the Recovery Fund shall not be used for educational purposes if an educational expenditure would cause the fund balance to drop below \$200,000. The Commission also monitors the Recovery Fund to satisfy judgments by aggrieved persons who have suffered a direct monetary loss by reason of certain acts committed by any person licensed under General Statute Chapter 93A. Payments from the Recovery Fund cannot exceed \$25,000 for any one licensee within a single calendar year, or \$75,000 in the aggregate for any one licensee.

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").

All activities of the Commission 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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Reporting Entity

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is 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.

Basis of Accounting

The basic financial statements of the Commission are 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 Commission classifies its revenue and expenses as operating and non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of examination and license fees. Non-operating revenues and expenses include activities that have characteristics of non-exchange transactions and consist primarily of investing type activities.

Cash and Cash Equivalents

This classification includes cash on deposit and money market accounts with financial institutions. For purposes of reporting the statements of cash flows, the Commission considers all highly liquid investments purchased with a maturity of three months or less as cash equivalents.

Investments

Investments consist of money market funds and certificates of deposit. The certificates of deposit are recorded at cost plus accrued interest to date.

Inventory

Inventory consists of real estate manuals and publications and is recorded at cost.

Accounts Receivable

Accounts receivable consists primarily of amounts due from publication sales. All amounts are believed to be collectible and an allowance for doubtful accounts is not deemed necessary.

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Long-Lived Assets (Continued)

Capital assets are stated at cost at the date of acquisition and are depreciated over their estimated useful lives ranging from 5 years to 40 years on a straight-line basis. The Commission's policy is to capitalize property and equipment when acquired at a cost of \$1,000 or more. When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the financial records. Any gain or loss on disposition is reflected as a non-operating activity.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element called deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The Commission has two items that meet the criterion for this category - contributions made to the pension plan in the 2016 fiscal year and deferrals of pension assets that resulted from the implementation of GASB Statement No. 68. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Commission has one item that meets the criterion for this category - deferrals of pension expense that result from the implementation of GASB Statement No. 68.

Unearned Revenue

The Commission's fees which are collected in advance are recorded as unearned revenue at year-end and recognized as revenue when the license period begins in the next fiscal year.

Accrued Leave

Commission employees may accumulate up to 240 hours of general leave that can be paid out at termination. Employees still under the State Retirement System can have their excess general leave converted to service credits.

Net Position

The Commission's net position is classified as follows:

Invested in Capital Assets - This represents the Commission's total investment in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of net assets which the Commission is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

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 AND INVESTMENTS

Cash and Certificates of Deposit

The Commission's deposits include cash on deposit with financial institutions, money market accounts and certificates of deposit.

The Commission is Subject to the Following Risks:

Custodial credit risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, the Commission's Operating Fund deposits had a carrying amount of \$7,853,758 and a bank balance of \$7,846,389. Of the bank balance, \$4,187,406 was covered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NUCA), and \$3,658,933 was uninsured in certain financial institutions that had pledged collateral to protect the uninsured balances. The Operating Fund had \$0 in financial institutions that was uninsured and uncollateralized. At June 30, 2016, the Commission's Recovery Fund deposits had a carrying amount of \$537,117 and a bank balance of \$545,184. Of the bank balance, \$545,184 was covered by the FDIC and \$0 was uninsured and uncollateralized.

Interest rate risk: Interest rate risk is the risk that the Commission may face should interest rate variances affect the fair value of investments. The Commission minimizes this risk by investing only in certificates of deposit.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission manages credit risk by diversifying its investment portfolio. Investments are limited to time deposits, certificates of deposit, and savings accounts in financial institutions.

The following table presents the cost plus accrued interest value of investments by type and investments subject to interest rate and credit risk at June 30, 2016, for the Commission's investments.

<u>Investment Type</u>	<u>Cost Plus Accrued Interest</u>	<u>Properties of Debt Securities</u>	
		<u>Weighted Average Maturities</u>	<u>Ratings</u>
Other securities:			
Certificates of deposit	<u>\$ 3,897,268</u>	6 months	N/A

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

NORTH CAROLINA REAL ESTATE COMMISSION**Notes to Financial Statements**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**The Commission is Subject to the Following Risks (Continued):**

A reconciliation of deposits and investments for the Commission to the basic financial statements at June 30, 2016, is as follows:

Carrying amount of deposits with private financial institutions	\$ 717,675
Money market mutual funds	3,775,932
Investments in certificates of deposit	3,897,268
Total deposits and investments	<u>\$ 8,390,875</u>
Current:	
Cash and cash equivalents	\$ 4,937,234
Short-term investments	3,453,641
Total deposits and investments	<u>\$ 8,390,875</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost 7/1/2015	Additions	Retirements	Cost 6/30/2016	Accumulated Depreciated	Net Amount
Building	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 614,650	\$ 3,697,600
Furniture/ Equipment	1,530,964	126,708	(139,839)	1,517,833	1,092,744	425,089
Leasehold Improvements	204,807	9,368	-	214,175	73,035	141,140
Totals	<u>\$ 6,048,021</u>	<u>\$ 136,076</u>	<u>\$ (139,839)</u>	<u>\$ 6,044,258</u>	<u>\$ 1,780,429</u>	<u>\$ 4,263,829</u>
	Cost 7/1/2014	Additions	Retirements	Cost 6/30/2015	Accumulated Depreciated	Net Amount
Building	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 521,794	\$ 3,790,456
Furniture/ Equipment	1,479,323	90,245	(38,604)	1,530,964	1,112,949	418,015
Leasehold Improvements	136,361	68,446	-	204,807	59,329	145,478
Totals	<u>\$ 5,927,934</u>	<u>\$ 158,691</u>	<u>\$ (38,604)</u>	<u>\$ 6,048,021</u>	<u>\$ 1,694,072</u>	<u>\$ 4,353,949</u>

NORTH CAROLINA REAL ESTATE COMMISSION**Notes to Financial Statements**

NOTE 4 - NON-CURRENT LIABILITIES**Line of Credit**

In December 2010, the Commission obtained a construction line of credit up to \$3,310,000. Interest is payable monthly at 65% of the prime rate with a minimum of 2% and a maximum rate of 5%. The line of credit is secured by the Commission's property, fixtures and improvements. In September 2013, the line of credit was modified to change the interest rate calculation to equal the monthly Bank of North Carolina Prime Rate minus 1.14%, which for the current year calculates to 2.36%. Unpaid principal and interest is due December 2017. The outstanding balances at June 30, 2016 and 2015 were \$248,789 and \$623,789, respectively.

As of June 30, 2016, principal and interest payments due on the line of credit are estimated as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 5,871	\$ 5,871
2018	248,789	2,936	251,725
Total	<u>\$ 248,789</u>	<u>\$ 8,807</u>	<u>\$ 257,596</u>

Changes in non-current liabilities are as follows:

	Balance 6/30/2015	Increases	Decreases	Balance 6/30/2016	Current Portion
Accrued leave	\$ 271,332	\$ 363,500	\$ 336,031	\$ 298,801	\$ 51,251
Line of credit	623,789	-	375,000	248,789	-
	<u>\$ 895,121</u>	<u>\$ 363,500</u>	<u>\$ 711,031</u>	<u>\$ 547,590</u>	<u>\$ 51,251</u>

	Balance 6/30/2014	Increases	Decreases	Balance 6/30/2015	Current Portion
Accrued leave	\$ 248,457	\$ 400,864	\$ 377,989	\$ 271,332	\$ 50,664
Line of credit	1,123,789	-	500,000	623,789	-
	<u>\$ 1,372,246</u>	<u>\$ 400,864</u>	<u>\$ 877,989</u>	<u>\$ 895,121</u>	<u>\$ 50,664</u>

NOTE 5 - RETIREMENT PLANS**North Carolina Licensing Boards Retirement Savings Plan**

The North Carolina Licensing Boards Retirement Savings Plan (Plan) is a multiple employer, cost-sharing defined contribution plan. The Plan was established to provide retirement benefits for employees of state boards or agencies who did not elect by resolution to cause their employees to be eligible to become members of the Teachers' and State Employees' Retirement System and for employees hired after July 1, 1983, by an electing board or agency. The Employer, defined as the eight participating license boards, is empowered to appoint and remove the Trustee. Participating employees must contribute 6% of their gross pay and the Commission matches those contributions 100%. Employee's contributions are immediately 100% vested; the Commission's contributions are 100% vested after 5 years of credited service.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

North Carolina Licensing Boards Retirement Savings Plan (Continued)

The Commission's payroll for employees covered by the Plan for the year ended June 30, 2016 was \$2,920,187; the Commission's total payroll was \$3,153,087. The Commission's payroll for employees covered by the Plan for the year ended June 30, 2015 was \$2,809,312; the Commission's total payroll was \$3,084,838.

The total contribution for the year ended June 30, 2016 was \$448,674, which consisted of \$171,751 (net of forfeitures) from the Commission and \$276,923 from employees. The total contribution for the year ended June 30, 2015 was \$403,637, which consisted of \$138,404 (net of forfeitures) from the Commission and \$265,233 from employees.

Teachers' and State Employees' Retirement System

A few of the Commission's employees participate in the Teachers' and State Employees' Retirement (TSERS) plan.

Plan Administration

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

Benefits Provided

TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

Contributions

Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Board's contractually-required contribution rate for the year ended June 30, 2016 was 9.32% of covered payroll and for the year ended June 30, 2015 was 9.15% of covered payroll. This amount, combined with plan member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. The Board's contributions to the pension plan were \$29,354 and employee contributions were \$11,496 for the year ended June 30, 2016.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting

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

Methods Used to Value TSERS Investment

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability

At June 30, 2016, the Board reported a liability of \$32,061 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Board's proportion of the net pension liability was based on the present value of future salaries for the Board relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the Board's proportion was 0.00087%, which was an decrease of 0.00033% from its proportion measured as of June 30, 2014.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

Actuarial Assumptions

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

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* *Salary increases include 3.5% inflation and productivity factor.*

** *Investment rate of return is net of pension plan investment expense, including inflation.*

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

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.20%
Global Equity	5.80%
Real Estate	5.20%
Alternatives	9.80%
Credit	6.80%
Inflation Protection	3.40%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

NORTH CAROLINA REAL ESTATE COMMISSION**Notes to Financial Statements**

NOTE 5 - RETIREMENT PLANS (Continued)**Discount Rate**

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Sensitivity of the net pension liability (asset) to changes in the discount rate

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
96,495	32,061	(22,619)

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

For the year ended June 30, 2016, the Board recognized pension expense of \$8,559. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 3,645
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	3,474
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,368	2,853
Employer contributions subsequent to the measurement date	29,354	-
	<u>\$ 46,722</u>	<u>\$ 9,972</u>

NORTH CAROLINA REAL ESTATE COMMISSION**Notes to Financial Statements**

NOTE 5 - RETIREMENT PLANS (Continued)**Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension by Classification (Continued)**

The \$29,354 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources that will be Recognized in Pension Expense:

Year Ending June 30:

2017	\$	1,260
2018		1,260
2019		85
2020		4,791
2021		-
	\$	<u>7,396</u>

Amount of the Employer's Balance of Deferred Outflows of Resources that will be Included as a Reduction of the Net Pension Liability in the Fiscal Year Ended June 30, 2017

Deferred Outflow Amount	<u>\$ 29,354</u>
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Changes in Long-Term Liabilities

	Net Pension Liability
Balance July 1, 201	<u>\$ 14,069</u>
Prior year adjustments	-
Additions	17,992
Deletions	-
Balance, June 30, 2016	<u>\$ 32,061</u>
Due within one year	<u>\$ -</u>

Internal Revenue Code 401(k) Plan

Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized creation of the Supplemental Retirement Income Plan of North Carolina in accordance with Internal Revenue Code Section 401(k). All employees who are members of the Teachers' and State Employees' Retirement System of North Carolina are eligible for enrollment in this plan. Members of this plan may receive their benefits upon retirement, disability, termination, hardship, or death. Administration costs are paid by plan participants. Voluntary contributions by employees was \$4,800 and \$19,946 for the years ended June 30, 2016 and 2015, respectively.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

Internal Revenue Code 457(k) Plan

In March 2010, the Commission began participation in the North Carolina Deferred Compensation Plan (457). All full time and permanent part time employees are eligible for participation in the plan. Voluntary contributions by employees were \$53,544 and \$52,148 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Commission participates in state administered programs which provide post employment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teacher's and State Employees' Retirement System. These benefits were established by Chapter 135 of the North Carolina General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefits for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Commission's contribution for post employment health care benefits is included in its retirement contribution to the Teachers' and State Employees' Retirement System.

The Commission participates in the Disability Income Plan of North Carolina (DIPNC) established by Chapter 135 of the North Carolina General Statutes. DIPNC provides short-term and long-term disability to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advanced on an actuarially determined basis using the one-year term cost method. The Commission's contribution for post employment disability benefits is included in its retirement contribution to the Teachers' and State Employees' Retirement System. The Commission assumes no liability for retiree health care or disability benefits provided by these programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 7 - RISK MANAGEMENT AND CONTINGENCIES

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of Commission members are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the Commission under the State's public officers' and employees' liability insurance contract with a private insurance company. The Commission also protects itself from exposures to loss through the purchase of commercial insurance, of which coverage includes building and contents, commercial liability, workers' compensation and employers' liability.

The Commission is involved in 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 Commission at year-end.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 8 - SUBSEQUENT EVENT

Management of the Commission evaluated subsequent events through October 10, 2016, which is the date the financial statements were available to be issued. Management discovered no subsequent events which should be disclosed.

The audit was conducted in approximately 130 hours at a cost of \$13,550

NORTH CAROLINA REAL ESTATE COMMISSION
Proportionate Share of Net Pension Liability and Schedule of Board Contributions
Teachers' and State Employees' Retirement System
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Proportionate share of the net pension liability (asset)	0.00087%	0.00120%
Proportionate share of the net pension liability (asset)	\$ 32,061	\$ 14,069
Covered-employee payroll	191,605	275,526
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	16.73%	5.11%
Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.24%

Contributions

Contractually required contribution	\$ 40,850	\$ 58,440
Contributions in relation to the contractually required contribution	<u>40,850</u>	<u>58,440</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 191,605	\$ 275,526
Contributions as a percentage of covered- employee payroll	21.32%	21.21%