

**NORTH CAROLINA REAL ESTATE  
COMMISSION**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2019 AND 2018**



# 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, 2019**

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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, 2019. 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 Fund revenues increased \$325,801 or 3.85%, attributable to application and continuing education fee increases and an increase in other revenue streams from the gradual improvement in the real estate industry.

Operating Fund expenses increased by \$510,531 or 8.00%, attributable primarily to increases in personnel costs. Recovery Fund expenses increased due to claims being paid in the fiscal year ended June 30, 2019.

Net non-operating revenues increased \$83,168 or 397.74% attributable primarily to interest earned on certificates of deposit.

As a result of this year's operations, the Commission's net position increased by \$1,997,991 or 19.05%. The net position of the Commission's Operating Fund increased by \$2,001,033. The net position of the Commission's Recovery Fund decreased by \$(3,042).

The Commission's Investment in Capital Assets balance (net of accumulated depreciation and related debt) was \$4,987,764, an increase of 11.84% from the prior year end. This increase was attributable to capital asset additions less disposals in fiscal year ended June 30, 2019.

**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.

For the fiscal year ended June 30, 2019, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*.

**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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**For the Fiscal Year Ended June 30, 2019**

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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:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current assets	<b>\$ 13,207,771</b>	\$ 11,283,337	\$ 9,222,635
Non-current assets	<b>5,147,764</b>	4,459,731	4,350,411
Deferred outflows of resources	<b>247</b>	5,288	45,369
Total assets	<b>18,355,782</b>	15,748,356	13,618,415
Current liabilities	<b>5,248,576</b>	4,856,063	4,768,703
Non-current liabilities	<b>491,085</b>	237,830	284,794
Deferred inflows of resources	<b>130,086</b>	166,419	8,103
Total liabilities	<b>5,869,747</b>	5,260,312	5,061,600
Invested in capital assets, net of related debt	<b>4,987,764</b>	4,459,731	4,350,411
Restricted	<b>764,668</b>	767,710	415,507
Unrestricted	<b>6,733,603</b>	5,260,603	3,790,897
Total net position	<b>\$ 12,486,035</b>	\$ 10,488,044	\$ 8,556,815
Operating revenues	<b>\$ 8,813,794</b>	\$ 8,465,588	\$ 6,711,363
Operating expenses	<b>6,919,881</b>	6,378,544	6,117,504
Operating income	<b>1,893,913</b>	2,087,044	593,859
Non-operating revenues	<b>104,078</b>	20,910	20,722
Changes in net position	<b>\$ 1,997,991</b>	\$ 2,107,954	\$ 614,581

**NORTH CAROLINA REAL ESTATE COMMISSION**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2019**

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**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 licensees has continued to increase every year since fiscal year 2015, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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 30 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 11, 2019

**NORTH CAROLINA REAL ESTATE COMMISSION**  
**Statements of Net Position**  
**June 30, 2019 and 2018**

	2019			2018		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
<b>ASSETS:</b>						
Current assets:						
Cash	\$ 4,074,429	\$ 110,423	\$ 4,184,852	\$ 2,430,217	\$ 767,710	\$ 3,197,927
Investments	8,016,835	652,398	8,669,233	7,751,759	-	7,751,759
Inventory	71,324	-	71,324	67,331	-	67,331
Accrued interest	38,054	1,847	39,901	10,422	-	10,422
Accounts receivable	53,598	-	53,598	53,148	-	53,148
Prepaid expenses	188,863	-	188,863	202,750	-	202,750
Total current assets	12,443,103	764,668	13,207,771	10,515,627	767,710	11,283,337
Non-current assets:						
Capital assets, net of depreciation	5,147,764	-	5,147,764	4,459,731	-	4,459,731
Total non-current assets	5,147,764	-	5,147,764	4,459,731	-	4,459,731
Total assets	17,590,867	764,668	18,355,535	14,975,358	767,710	15,743,068
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>						
Pension and other postemployment benefit deferred outflows	247	-	247	5,288	-	5,288
Total deferred outflows of resources	247	-	247	5,288	-	5,288
<b>LIABILITIES:</b>						
Current liabilities:						
Accounts payable and accrued liabilities	308,975	-	308,975	155,523	-	155,523
Unearned revenues	4,910,830	-	4,910,830	4,657,000	-	4,657,000
Accrued leave - current portion	28,771	-	28,771	43,540	-	43,540
Total current liabilities	5,248,576	-	5,248,576	4,856,063	-	4,856,063
Non-current liabilities:						
Line of credit - current	160,000	-	160,000	-	-	-
Accrued leave - long-term portion	331,085	-	331,085	237,830	-	237,830
Total non-current liabilities	491,085	-	491,085	237,830	-	237,830
Total liabilities	5,739,661	-	5,739,661	5,093,893	-	5,093,893
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Pension and other postemployment benefit deferred inflows	130,086	-	130,086	166,419	-	166,419
<b>NET POSITION:</b>						
Invested in capital assets, net of related debt	4,987,764	-	4,987,764	4,459,731	-	4,459,731
Restricted	-	764,668	764,668	-	767,710	767,710
Unrestricted	6,733,603	-	6,733,603	5,260,603	-	5,260,603
Total net position	\$ 11,721,367	\$ 764,668	\$ 12,486,035	\$ 9,720,334	\$ 767,710	\$ 10,488,044

*See Notes to Financial Statements.*



**NORTH CAROLINA REAL ESTATE COMMISSION**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2019 and 2018**

	2019			2018		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Operating revenues:						
License renewals	\$ 4,807,105	\$ -	\$ 4,807,105	\$ 4,634,505	\$ -	\$ 4,634,505
Application fees	1,844,290	-	1,844,290	1,753,750	-	1,753,750
Publication fees	316,336	-	316,336	376,366	-	376,366
Course registration fees	262,475	-	262,475	216,730	-	216,730
Continuing education course student fees	1,453,640	-	1,453,640	1,417,060	-	1,417,060
Certification fees	30,055	-	30,055	29,790	-	29,790
Miscellaneous	75,888	24,005	99,893	35,787	1,600	37,387
Total operating revenues	8,789,789	24,005	8,813,794	8,463,988	1,600	8,465,588
Operating expenses:						
Personnel	5,047,464	-	5,047,464	4,680,672	-	4,680,672
Commission	100,111	-	100,111	110,007	-	110,007
Building	205,179	-	205,179	168,410	-	168,410
Supplies and equipment	799,641	-	799,641	808,739	-	808,739
Education and examination	121,147	-	121,147	79,396	-	79,396
Professional services	38,186	-	38,186	41,377	-	41,377
Mail services	14,905	-	14,905	15,339	-	15,339
Credit card charges	202,418	-	202,418	176,915	-	176,915
Depreciation	280,456	-	280,456	226,749	-	226,749
Interest	19	-	19	-	-	-
Miscellaneous	79,512	52	79,564	70,903	37	70,940
Claims	-	30,791	30,791	-	-	-
Total operating expenses	6,889,038	30,843	6,919,881	6,378,507	37	6,378,544
Operating income (loss)	1,900,751	(6,838)	1,893,913	2,085,481	1,563	2,087,044
Non-operating revenues (expenses):						
Net investment income	102,288	3,796	106,084	42,397	640	43,037
Loss on disposal of equipment	(2,006)	-	(2,006)	(22,127)	-	(22,127)
Total non-operating revenues (expenses)	100,282	3,796	104,078	20,270	640	20,910
Changes in net position	2,001,033	(3,042)	1,997,991	2,105,751	2,203	2,107,954
Transfer to Recovery Fund	-	-	-	(350,000)	350,000	-
Net position - beginning of year - as originally reported	9,720,334	767,710	10,488,044	8,141,308	415,507	8,556,815
Restatement of beginning net position	-	-	-	(176,725)	-	(176,725)
Net position - beginning of year - as restated	9,720,334	767,710	10,488,044	7,964,583	415,507	8,380,090
Net position - end of year	\$11,721,367	\$ 764,668	\$12,486,035	\$ 9,720,334	\$ 767,710	\$10,488,044

*See Notes to Financial Statements.*

**NORTH CAROLINA REAL ESTATE COMMISSION**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	2019			2018		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Cash flows from operating activities:						
Cash received from fees	\$ 9,043,169	\$ -	\$ 9,043,169	\$ 8,598,176	\$ -	\$ 8,598,176
Cash payments to employees for services	(5,000,270)	-	(5,000,270)	(4,715,417)	-	(4,715,417)
Cash payments for operating expenses	(587,239)	-	(587,239)	(546,975)	-	(546,975)
Cash payments to suppliers of goods & services	(978,850)	-	(978,850)	(979,762)	-	(979,762)
Cash payments for Recovery Fund expenses	-	(6,838)	(6,838)	-	(48,144)	(48,144)
Net cash provided by (used in) operating activities	<u>2,476,810</u>	<u>(6,838)</u>	<u>2,469,972</u>	<u>2,356,022</u>	<u>(48,144)</u>	<u>2,307,878</u>
Cash flows from capital and related financing activities:						
Repayment of line of credit	160,000	-	160,000	-	-	-
Acquisition of capital assets	(970,495)	-	(970,495)	(358,196)	-	(358,196)
Transfer to Recovery Fund	-	-	-	(350,000)	350,000	-
Net cash provided by (used in) capital and related financing activities	<u>(810,495)</u>	<u>-</u>	<u>(810,495)</u>	<u>(708,196)</u>	<u>350,000</u>	<u>(358,196)</u>
Cash flows from investing activities:						
Purchases of investments	(8,590,637)	(652,398)	(9,243,035)	(7,047,827)	-	(7,047,827)
Sales of investments	8,493,878	-	8,493,878	4,719,089	300,000	5,019,089
Net investment income	74,656	1,949	76,605	34,211	640	34,851
Net cash provided by (used in) investing activities	<u>(22,103)</u>	<u>(650,449)</u>	<u>(672,552)</u>	<u>(2,294,527)</u>	<u>300,640</u>	<u>(1,993,887)</u>
Net increase (decrease) in cash	<u>1,644,212</u>	<u>(657,287)</u>	<u>986,925</u>	<u>(646,701)</u>	<u>602,496</u>	<u>(44,205)</u>
Cash - beginning of year	<u>2,430,217</u>	<u>767,710</u>	<u>3,197,927</u>	<u>3,076,918</u>	<u>165,214</u>	<u>3,242,132</u>
Cash - end of year	<u>\$ 4,074,429</u>	<u>\$ 110,423</u>	<u>\$ 4,184,852</u>	<u>\$ 2,430,217</u>	<u>\$ 767,710</u>	<u>\$ 3,197,927</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	<u>\$ 1,900,751</u>	<u>\$ (6,838)</u>	<u>\$ 1,893,913</u>	<u>\$ 2,085,481</u>	<u>\$ 1,563</u>	<u>\$ 2,087,044</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Restatement of beginning net position	-	-	-	(176,725)	-	(176,725)
Depreciation	280,456	-	280,456	226,749	-	226,749
Changes in assets and liabilities:						
Accounts receivable	(450)	-	(450)	(21,692)	-	(21,692)
Inventory	(3,993)	-	(3,993)	(20,740)	-	(20,740)
Prepaid expenses	13,887	-	13,887	(25,551)	-	(25,551)
Deferred outflows of resources	5,041	-	5,041	40,081	-	40,081
Accounts payable and accrued liabilities	(14,865)	-	(14,865)	(9,360)	(49,707)	(59,067)
Unearned revenues	253,830	-	253,830	155,880	-	155,880
Accrued leave	78,486	-	78,486	(8,624)	-	(8,624)
Net pension liability	-	-	-	(47,793)	-	(47,793)
Deferred inflows of resources	(36,333)	-	(36,333)	158,316	-	158,316
Total adjustments	<u>576,059</u>	<u>-</u>	<u>576,059</u>	<u>270,541</u>	<u>(49,707)</u>	<u>220,834</u>
Net cash provided by (used in) operating activities	<u>\$ 2,476,810</u>	<u>\$ (6,838)</u>	<u>\$ 2,469,972</u>	<u>\$ 2,356,022</u>	<u>\$ (48,144)</u>	<u>\$ 2,307,878</u>
Supplemental disclosures of non-cash investing and financing activities:						
Property and equipment acquired by an increase in accounts payable	<u>\$ 168,317</u>	<u>\$ -</u>	<u>\$ 168,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*See Notes to Financial Statements.*

## **NORTH CAROLINA REAL ESTATE COMMISSION**

### **Notes to Financial Statements**

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#### **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**

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#### **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 may be reported as such in the State's *Comprehensive Annual Financial Report* (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

##### **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.

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

For the fiscal year ended June 30, 2019, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*.

GASB No. 88 improves the consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and provides financial statement users with additional essential information about debt. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. This Statement amends Statement No. 34, *Basic Financial Statements and Management's Decisions and Analysis for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

##### **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. Cash held in money market accounts awaiting re-investment are not deemed cash equivalents for purposes of reporting the statements of cash flows.

##### **Investments**

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

## **NORTH CAROLINA REAL ESTATE COMMISSION**

### **Notes to Financial Statements**

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

##### **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.

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 the following items that meet the criterion for this category - deferrals of pension and other postemployment benefit assets, and contributions to pension plan, that resulted from the implementation of GASB Statement No. 68 and GASB Statement No. 75. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, 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 the following item that meets the criterion for this category - deferrals of pension expense and other postemployment benefit expense that resulted from the implementation of GASB Statement No. 68 and GASB Statement No. 75.

##### **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 or retirement.

## **NORTH CAROLINA REAL ESTATE COMMISSION**

### **Notes to Financial Statements**

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

##### **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.

##### **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, 2019, the Commission's Operating Fund deposits had a carrying amount of \$12,091,264 and a bank balance of \$11,820,127. Of the bank balance, \$4,538,513 was covered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NUCA), and \$7,281,563 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, 2019, the Commission's Recovery Fund deposits had a carrying amount and bank balance of \$762,821. Of the bank balance, \$762,821 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 manages its exposure to declines in fair values by limiting the weighted average maturity of its certificates of deposit.

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

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NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

**The Commission is Subject to the Following Risks (Continued):**

*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, 2019, 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>\$ 4,395,057</u>	2 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.

A reconciliation of deposits and investments for the Commission to the basic financial statements at June 30, 2019, is as follows:

Carrying amount of deposits with private financial institutions	\$ 1,055,046
Money market mutual funds	7,403,982
Investments in certificates of deposit	4,395,057
Total deposits and investments	<u>\$ 12,854,085</u>
Current:	
Cash and cash equivalents	\$ 4,184,852
Short-term investments	8,669,233
Total deposits and investments	<u>\$ 12,854,085</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	<u>Cost 7/1/2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Cost 6/30/2019</u>	<u>Accumulated Depreciated</u>	<u>Net Amount</u>
Building/Land	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 893,218	\$ 3,419,032
Furniture/ Equipment	1,838,626	588,383	(99,455)	2,327,554	1,109,608	1,217,946
Leasehold Improvements	254,515	382,112	-	636,627	125,841	510,786
Totals	<u>\$ 6,405,391</u>	<u>\$ 970,495</u>	<u>\$ (99,455)</u>	<u>\$ 7,276,431</u>	<u>\$ 2,128,667</u>	<u>\$ 5,147,764</u>

**NORTH CAROLINA REAL ESTATE COMMISSION****Notes to Financial Statements****NOTE 3 - CAPITAL ASSETS (Continued)**

	Cost 7/1/2017	Additions	Retirements	Cost 6/30/2018	Accumulated Depreciated	Net Amount
Building/Land	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 800,362	\$ 3,511,888
Furniture/ Equipment	1,592,351	342,326	(96,051)	1,838,626	1,042,035	796,591
Leasehold Improvements	238,644	15,871	-	254,515	103,263	151,252
Totals	<u>\$ 6,143,245</u>	<u>\$ 358,197</u>	<u>\$ (96,051)</u>	<u>\$ 6,405,391</u>	<u>\$ 1,945,660</u>	<u>\$ 4,459,731</u>

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

In May 2019, the Commission renewed a revolving line of credit agreement that was established in March 2017 with up to a maximum of \$500,000, with interest payable monthly at a floating rate of 1-month LIBOR. The Commission drew \$160,000 on the Line of Credit in May 2019. As of June 30, 2019, the interest rate was 4.375%. All principal and unpaid interest is due at maturity on May 31, 2020.

Under GASB Statement No. 88, the line of credit (LOC) is considered debt under direct borrowings. Significant information in relation to this debt includes that the \$500,000 LOC does not require an encumbrance of real property, and is unsecured with no guarantors on the loan. The loan is for interest only, payable monthly, on the outstanding principal balance; all remaining principal and any remaining interest due is payable at maturity. During the term, the Commission may borrow, repay, and re-borrow principal under this LOC. In the event of default, the agreement will immediately terminate and all indebtedness will become due and payable at the lender's option. Accelerations shall be automatic and not optional if the event of default is due to insolvency.

**Changes in non-current liabilities are as follows:**

	Balance 6/30/2018	Increases	Decreases	Balance 6/30/2019	Current Portion
Accrued leave	\$ 281,370	\$ 402,283	\$ 323,797	\$ 359,856	\$ 28,771
Line of credit	-	160,000	-	160,000	160,000
	<u>\$ 281,370</u>	<u>\$ 562,283</u>	<u>\$ 323,797</u>	<u>\$ 519,856</u>	<u>\$ 188,771</u>

  

	Balance 6/30/2017	Increases	Decreases	Balance 6/30/2018	Current Portion
Accrued leave	\$ 289,994	\$ 332,213	\$ 340,837	\$ 281,370	\$ 43,540
Line of credit	-	-	-	-	-
	<u>\$ 289,994</u>	<u>\$ 332,213</u>	<u>\$ 340,837</u>	<u>\$ 281,370</u>	<u>\$ 43,540</u>



## **NORTH CAROLINA REAL ESTATE COMMISSION**

### **Notes to Financial Statements**

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#### **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.

The Commission's payroll for employees covered by the Plan for the year ended June 30, 2019 was \$3,464,663; the Commission's total payroll was \$3,520,530. The Commission's payroll for employees covered by the Plan for the year ended June 30, 2018 was \$3,199,977; the Commission's total payroll was \$3,248,388.

The total contribution for the year ended June 30, 2019 was \$549,194, which consisted of \$207,956 (net of forfeitures) from the Commission and \$341,238 from employees. The total contribution for the year ended June 30, 2018 was \$506,330, which consisted of \$191,684 (net of forfeitures) from the Commission and \$314,646 from employees.

##### **Teachers' and State Employees' Retirement System**

The Commission employees that participated in the Teachers' and State Employees' Retirement (TSERS) plan were all retired as of the fiscal year ended June 30, 2017; however, the plan information and applicable reporting is here within as required.

##### *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.

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

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

**Teachers' and State Employees' Retirement System (Continued)**

*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.

*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 Commission's contractually-required contribution rates for the years ended June 30, 2019 and 2018 was 0% of covered payroll. The Commission's contributions to the pension plan were \$0 and employee contributions were \$0 for both years ended June 30, 2019 and 2018.

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 2018 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.

## NORTH CAROLINA REAL ESTATE COMMISSION

### Notes to Financial Statements

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#### NOTE 5 - RETIREMENT PLANS (Continued)

##### *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. The Fixed Income Asset Class includes the Long-term Investment and External Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. 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. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. Descriptions of the investments of the TSERS plan are included in the State of North Carolina's fiscal year 2018 *Comprehensive Annual Financial Report*.

##### *Net Pension Liability*

At June 30, 2019, the Commission reported a liability of \$0 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. The Commission's proportion of the net pension liability was based on the present value of future salaries for the Commission relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019 and June 30, 2018, the Commission's proportion was 0.00%.

##### *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	12/31/2017
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

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

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

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

The actuarial assumptions used in the December 31, 2017 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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NOTE 5 - RETIREMENT PLANS (Continued)

*Actuarial Assumptions (Continued)*

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, 2018 (the valuation date) are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary and is part of the 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2018 is 1.5%.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.0%. 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.

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

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

*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 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

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

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<hr/> \$0	<hr/> \$0	<hr/> \$0

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

For the year ended June 30, 2019, the Commission recognized pension expense of (\$1,880). At June 30, 2019, the Commission 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	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,942
Employer contributions subsequent to the measurement date	-	-
	<hr/> \$ -	<hr/> \$ 11,942

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

2020	\$ (6,487)
2021	(5,455)
2022	-
2023	-
2024	-
	<hr/> \$ (11,942)

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

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

*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, 2019:*

Deferred Outflow Amount	<u>\$ -</u>
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*Changes in Long-Term Liabilities*

During the year ended June 30, 2019, there was no change in the Commission's net pension liability. The Commission reported a net pension liability of \$0 as of June 30, 2019 and June 30, 2018.

**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 \$0 for the years ended June 30, 2019 and 2018.

**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 \$50,417 and \$43,532 for the years ended June 30, 2019 and 2018, respectively.

**NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The Commission participates in two Other Postemployment Benefit ("OPEB") plans administered by the State of North Carolina: the Retiree Health Benefit Fund ("RHBF") and the Disability Income Plan of North Carolina ("DIPNC"). Each plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2018 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.

The Commission employees that participated in the RHBF and the DIPNC plans were retired as of the fiscal year ended June 30, 2017.

*Other Postemployment Benefit Plans Basis of Accounting*

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

## NORTH CAROLINA REAL ESTATE COMMISSION

### Notes to Financial Statements

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#### NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

##### *Other Postemployment Benefit Plans Basis of Accounting (Continued)*

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the OPEB funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The RHBF participates in the External Investment Pool. The DIPNC are invested in the Short-term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool.

##### **Plan Descriptions:**

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

##### *Plan Administration*

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

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

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

##### *Benefits Provided*

Plan benefits received by retired employees and disabled employees from RHBF are OPEB. Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

**NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

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

*Contributions*

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

The Commission's contractually-required contribution rates for the years ended June 30, 2019 and 2018 was 0% of covered payroll. The Commission's contributions to the RHBF were \$0 for the years ended June 30, 2019 and 2018.

**Disability Income (DIPNC)**

*Plan Administration*

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

By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System.

*Benefits Provided*

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



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

**Disability Income (DIPNC) (Continued)**

*Benefits Provided (Continued)*

An employee is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age. For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System.

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

*Contributions*

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. The Commission's contractually-required contribution rates for the years ended June 30, 2019 and 2018 was 0% of covered payroll. This was equal to the actuarially required contribution.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

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

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

**Net Other Postemployment Benefits Liability and Asset**

*Net OPEB Liability:* At June 30, 2019, the Commission reported a liability for the RHBF of \$0 for its proportionate share of the collective net RHBF liability. The net RHBF liability was measured as of June 30, 2018. The total RHBF liability used to calculate the net RHBF liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total RHBF liability to June 30, 2018. The Commission's proportion of the net RHBF liability was based on the present value of future salaries for the Commission relative to the present value of future salaries for all participating employers, actuarially-determined.

*Net OPEB Asset:* At June 30, 2019, the Commission reported an asset for the DIPNC of \$0 for its proportionate share of the collective net DIPNC asset. The net DIPNC asset was measured as of June 30, 2018. The total DIPNC asset used to calculate the net DIPNC asset was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total DIPNC asset to June 30, 2018. The Commission's proportion of the net DIPNC asset was based on the present value of future salaries for the Commission relative to the present value of future salaries for all participating employers, actuarially-determined.

*Actuarial Assumptions*

The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2018 utilizing update procedures incorporating the actuarial assumptions.

	<u>RHBF</u>	<u>DIPNC</u>
Valuation Date	12/31/2017	12/31/2017
Inflation	3.00%	3.00%
Salary Increases*	3.5% - 8.10%	3.5% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend - Medical	5.0% - 6.50%	5.0% - 6.50%
Healthcare Cost Trend - Prescription Drug	5.0% - 7.25%	N/A
Healthcare Cost Trend - Medicare Advantage	5.00%	N/A
Healthcare Cost Trend - Administrative	3.00%	N/A

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

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

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

**NORTH CAROLINA REAL ESTATE COMMISSION**  
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**NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)**

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

*Actuarial Assumptions (Continued)*

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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2018.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2018 are summarized in the following table:

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

The information in the preceding table is based on 30 year expectations developed with the consulting actuary and is part of the asset liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2018 is 1.5%.

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

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

**NORTH CAROLINA REAL ESTATE COMMISSION**  
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**NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)**

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

*Actuarial Assumptions (Continued)*

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

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

The actuarial assumptions used in the December 31, 2017 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

*Discount Rate*

The discount rate used to measure the total OPEB liability for RHBF was 3.87%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net OPEB liability of the plans at June 30, 2018, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate (dollars in thousands):

RHBF net OPEB liability

1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$0	\$0	\$0

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

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**NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)****Net Other Postemployment Benefits Liability and Asset (Continued)***Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Continued)*

## DIPNC net OPEB asset

1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

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

## RHBF net OPEB liability

1% Decrease (Medical - 4.0 - 5.5% Pharmacy - 4.0 - 6.25% Med. Advantage - 4.0% Administrative - 2.0%)	Current Discount Rate (Medical - 5.0 - 6.5% Pharmacy - 5.0 - 7.25% Med. Advantage - 5.0% Administrative - 3.0%)	1% Increase (Medical - 6.0 - 7.5% Pharmacy - 6.0 - 8.5% Med. Advantage - 6.0% Administrative - 4.0%)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

## DIPNC net OPEB Liability

1% Decrease (5.50% grading down to 4.00% in 2024)	Current Discount Rate (6.50% grading down to 5.00% in 2024)	1% Increase (7.50% grading down to 6.00% in 2024)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

For the year ended June 30, 2019, the Board recognized other postemployment benefits expense of \$(29,413). At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

# NORTH CAROLINA REAL ESTATE COMMISSION

## Notes to Financial Statements

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

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

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

	RHBFB		DIPNC	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ -	\$ -	\$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	118,144	247	-
Employer contributions subsequent to the measurement date	-	-	-	-
	<u>\$ -</u>	<u>\$ 118,144</u>	<u>\$ 247</u>	<u>\$ -</u>

The amount reported as deferred outflows of resources of \$0 related to RHBFB and DIPNC, respectively, will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to RHBFB and DIPNC will be recognized in other postemployment benefit expense as follows:

<u>Year Ending June 30:</u>	<u>RHBFB</u>	<u>DIPNC</u>
2020	\$ (29,536)	\$ 123
2021	(29,536)	124
2022	(29,536)	-
2023	(29,536)	-
2024	-	-
	<u>\$ (118,144)</u>	<u>\$ 247</u>

*Amount of the Employer's Balance of Deferred Outflows of Resources that will be Included as a Reduction of the Net Other Postemployment Benefits Liability in the Fiscal Year Ending June 30, 2020:*

	<u>RHBFB</u>	<u>DIPNC</u>
Deferred Outflow Amount	<u>\$ -</u>	<u>\$ -</u>

#### *Changes in Long-Term Liabilities and Assets*

During the year ended June 30, 2019, there was no change in the Commission's net OPEB liability or the Commission's net OPEB asset. The Commission reported a net OPEB liability of \$0 and a net OPEB asset of \$0 as of June 30, 2019 and June 30, 2018.

## **NORTH CAROLINA REAL ESTATE COMMISSION**

### **Notes to Financial Statements**

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#### **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.

#### **NOTE 8 - SUBSEQUENT EVENT**

Management of the Commission evaluated subsequent events through October 11, 2019, which is the date the financial statements were available to be issued. The Line of Credit described in Note 4 was subsequently repaid in August 2019. Management discovered no other subsequent events which should be disclosed.

The audit was conducted in approximately 130 hours at a cost of \$16,200.

**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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportionate share of the net pension liability (asset)	<b>0.00000%</b>	0.00000%	0.05200%	0.00087%	0.00120%	0.00110%
Proportionate share of the net pension liability (asset)	\$ -	\$ -	\$ 47,793	\$ 32,061	\$ 14,069	\$ 66,781
Covered-employee payroll	\$ -	\$ -	\$ 62,860	\$ 191,605	\$ 275,526	\$ 434,273
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	<b>0.00%</b>	0.00%	76.03%	16.73%	5.11%	15.38%
Plan fiduciary net position as a percentage of the total pension liability	<b>87.61%</b>	89.51%	87.32%	94.64%	98.24%	90.60%

**Contributions**

Contractually required contribution	\$ -	\$ -	\$ 13,905	\$ 40,850	\$ 58,440	\$ 89,851
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>13,905</u>	<u>40,850</u>	<u>58,440</u>	<u>89,851</u>
Contributions deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered-employee payroll	\$ -	\$ -	\$ 62,860	\$ 191,605	\$ 275,526	\$ 434,273
Contributions as a percentage of covered- employee payroll	<b>0.00%</b>	0.00%	22.12%	21.32%	21.21%	20.69%

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