

**NORTH CAROLINA REAL ESTATE
COMMISSION**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019



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, 2020

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, 2020. 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 \$103,887 or 1.18%, attributable to a continued increase in licensees and renewals; offset by a decrease in exam application fees due to exam center shutdowns during the COVID-19 pandemic.

Operating Fund expenses increased by \$37,045 or 0.54%, attributable primarily to increases in personnel costs and depreciation expense. This was offset by a decrease in supplies and equipment expenses with fewer mailings of printed materials, in addition to a decrease in education and examination expenses with fewer out-of-town classes and the cancellation of the educators conference. Recovery Fund expenses decreased due to no claims being paid in the fiscal year ended June 30, 2020.

Net non-operating revenues increased \$26,326 or 25.29% attributable primarily to interest earned on certificates of deposit.

As a result of this year's operations, the Commission's net position increased by \$2,105,497 or 16.86%. The net position of the Commission's Operating Fund increased by \$2,096,864. The net position of the Commission's Recovery Fund increased by \$8,633.

The Commission's Investment in Capital Assets balance (net of accumulated depreciation and related debt) was \$5,282,216, an increase of 5.9% from the prior year end. This increase was attributable to capital asset additions less disposals in fiscal year ended June 30, 2020.

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.

NORTH CAROLINA REAL ESTATE COMMISSION
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

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:

	2020	2019	2018
Current assets	\$ 15,116,593	\$ 13,207,771	\$ 11,283,337
Non-current assets	5,282,216	5,147,764	4,459,731
Deferred outflows of resources	124	247	5,288
Total assets	20,398,933	18,355,782	15,748,356
Current liabilities	5,372,086	5,248,576	4,856,063
Non-current liabilities	341,252	491,085	237,830
Deferred inflows of resources	94,063	130,086	166,419
Total liabilities	5,807,401	5,869,747	5,260,312
Invested in capital assets, net of related debt	5,282,216	4,987,764	4,459,731
Restricted	773,301	764,668	767,710
Unrestricted	8,536,015	6,733,603	5,260,603
Total net position	\$ 14,591,532	\$ 12,486,035	\$ 10,488,044
Operating revenues	\$ 8,901,176	\$ 8,813,794	\$ 8,465,588
Operating expenses	6,926,083	6,919,881	6,378,544
Operating income	1,975,093	1,893,913	2,087,044
Non-operating revenues	130,404	104,078	20,910
Changes in net position	\$ 2,105,497	\$ 1,997,991	\$ 2,107,954

NORTH CAROLINA REAL ESTATE COMMISSION

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2020

Events/Conditions (Expected to Impact) Affecting Future Operations

- The Commission's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (Covid-19) which has been declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain.
- 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.
- The majority of the Commission's investments are positioned well in safer fixed income securities and will be able to perform with less risk in tougher overall markets.
- 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.
- The total number of licensees has continued to increase every year since fiscal year 2015, when it was at its lowest point.

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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 16, 2020

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Net Position
June 30, 2020 and 2019

	2020			2019		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
ASSETS:						
Current assets:						
Cash	\$ 6,261,298	\$ 122,275	\$ 6,383,573	\$ 4,074,429	\$ 110,423	\$ 4,184,852
Investments	7,756,380	650,730	8,407,110	8,016,835	652,398	8,669,233
Inventory	76,180	-	76,180	71,324	-	71,324
Accrued interest	34,760	296	35,056	38,054	1,847	39,901
Accounts receivable	81,955	-	81,955	53,598	-	53,598
Prepaid expenses	132,719	-	132,719	188,863	-	188,863
Total current assets	14,343,292	773,301	15,116,593	12,443,103	764,668	13,207,771
Non-current assets:						
Capital assets, net of depreciation	5,282,216	-	5,282,216	5,147,764	-	5,147,764
Total non-current assets	5,282,216	-	5,282,216	5,147,764	-	5,147,764
Total assets	19,625,508	773,301	20,398,809	17,590,867	764,668	18,355,535
DEFERRED OUTFLOWS OF RESOURCES:						
Pension and other postemployment benefit deferred outflows	124	-	124	247	-	247
Total deferred outflows of resources	124	-	124	247	-	247
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	186,116	-	186,116	308,975	-	308,975
Unearned revenues	5,154,350	-	5,154,350	4,910,830	-	4,910,830
Accrued leave - current portion	31,620	-	31,620	28,771	-	28,771
Total current liabilities	5,372,086	-	5,372,086	5,248,576	-	5,248,576
Non-current liabilities:						
Line of credit - current	-	-	-	160,000	-	160,000
Accrued leave - long-term portion	341,252	-	341,252	331,085	-	331,085
Total non-current liabilities	341,252	-	341,252	491,085	-	491,085
Total liabilities	5,713,338	-	5,713,338	5,739,661	-	5,739,661
DEFERRED INFLOWS OF RESOURCES:						
Pension and other postemployment benefit deferred inflows	94,063	-	94,063	130,086	-	130,086
NET POSITION:						
Invested in capital assets, net of related debt	5,282,216	-	5,282,216	4,987,764	-	4,987,764
Restricted	-	773,301	773,301	-	764,668	764,668
Unrestricted	8,536,015	-	8,536,015	6,733,603	-	6,733,603
Total net position	\$ 13,818,231	\$ 773,301	\$ 14,591,532	\$ 11,721,367	\$ 764,668	\$ 12,486,035

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020			2019		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Operating revenues:						
License renewals	\$ 4,976,975	\$ -	\$ 4,976,975	\$ 4,807,105	\$ -	\$ 4,807,105
Application fees	1,767,050	-	1,767,050	1,844,290	-	1,844,290
Publication fees	346,563	-	346,563	316,336	-	316,336
Course registration fees	251,340	-	251,340	262,475	-	262,475
Continuing education course student fees	1,488,460	-	1,488,460	1,453,640	-	1,453,640
Certification fees	30,380	-	30,380	30,055	-	30,055
Miscellaneous	32,908	7,500	40,408	75,888	24,005	99,893
Total operating revenues	8,893,676	7,500	8,901,176	8,789,789	24,005	8,813,794
Operating expenses:						
Personnel	5,166,112	-	5,166,112	5,047,464	-	5,047,464
Commission	99,596	-	99,596	100,111	-	100,111
Building	189,539	-	189,539	205,179	-	205,179
Supplies and equipment	740,321	-	740,321	799,641	-	799,641
Education and examination	58,467	-	58,467	121,147	-	121,147
Professional services	24,397	-	24,397	38,186	-	38,186
Mail services	11,468	-	11,468	14,905	-	14,905
Credit card charges	200,441	-	200,441	202,418	-	202,418
Depreciation	375,842	-	375,842	280,456	-	280,456
Interest	1,336	-	1,336	19	-	19
Miscellaneous	58,564	-	58,564	79,512	52	79,564
Claims	-	-	-	-	30,791	30,791
Total operating expenses	6,926,083	-	6,926,083	6,889,038	30,843	6,919,881
Operating income (loss)	1,967,593	7,500	1,975,093	1,900,751	(6,838)	1,893,913
Non-operating revenues (expenses):						
Net investment income	130,502	1,133	131,635	102,288	3,796	106,084
Loss on disposal of equipment	(1,231)	-	(1,231)	(2,006)	-	(2,006)
Total non-operating revenues (expenses)	129,271	1,133	130,404	100,282	3,796	104,078
Changes in net position	2,096,864	8,633	2,105,497	2,001,033	(3,042)	1,997,991
Net position - beginning of year	11,721,367	764,668	12,486,035	9,720,334	767,710	10,488,044
Net position - end of year	\$ 13,818,231	\$ 773,301	\$ 14,591,532	\$ 11,721,367	\$ 764,668	\$ 12,486,035

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020			2019		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Cash flows from operating activities:						
Cash received from fees	\$ 9,108,839	\$ -	\$ 9,108,839	\$ 9,043,169	\$ -	\$ 9,043,169
Cash payments to employees for services	(5,188,996)	-	(5,188,996)	(5,000,270)	-	(5,000,270)
Cash payments for operating expenses	(549,476)	-	(549,476)	(587,239)	-	(587,239)
Cash payments to suppliers of goods & services	(917,299)	-	(917,299)	(978,850)	-	(978,850)
Cash payments for Recovery Fund expenses	-	7,500	7,500	-	(6,838)	(6,838)
Net cash provided by (used in) operating activities	<u>2,453,068</u>	<u>7,500</u>	<u>2,460,568</u>	<u>2,476,810</u>	<u>(6,838)</u>	<u>2,469,972</u>
Cash flows from capital and related financing activities:						
Repayment of line of credit	(160,000)	-	(160,000)	160,000	-	160,000
Acquisition of capital assets	(511,526)	-	(511,526)	(970,495)	-	(970,495)
Net cash provided by (used in) capital and related financing activities	<u>(671,526)</u>	<u>-</u>	<u>(671,526)</u>	<u>(810,495)</u>	<u>-</u>	<u>(810,495)</u>
Cash flows from investing activities:						
Purchases of investments	(10,571,128)	(650,730)	(11,221,858)	(8,590,637)	(652,398)	(9,243,035)
Sales of investments	10,842,659	652,398	11,495,057	8,493,878	-	8,493,878
Net investment income	133,796	2,684	136,480	74,656	1,949	76,605
Net cash provided by (used in) investing activities	<u>405,327</u>	<u>4,352</u>	<u>409,679</u>	<u>(22,103)</u>	<u>(650,449)</u>	<u>(672,552)</u>
Net increase (decrease) in cash	<u>2,186,869</u>	<u>11,852</u>	<u>2,198,721</u>	<u>1,644,212</u>	<u>(657,287)</u>	<u>986,925</u>
Cash - beginning 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>
Cash - end of year	<u>\$ 6,261,298</u>	<u>\$ 122,275</u>	<u>\$ 6,383,573</u>	<u>\$ 4,074,429</u>	<u>\$ 110,423</u>	<u>\$ 4,184,852</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 1,967,593	\$ 7,500	\$ 1,975,093	\$ 1,900,751	\$ (6,838)	\$ 1,893,913
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	375,842	-	375,842	280,456	-	280,456
Changes in assets and liabilities:						
Accounts receivable	(28,357)	-	(28,357)	(450)	-	(450)
Inventory	(4,856)	-	(4,856)	(3,993)	-	(3,993)
Prepaid expenses	56,144	-	56,144	13,887	-	13,887
Deferred outflows of resources	123	-	123	5,041	-	5,041
Accounts payable and accrued liabilities	(133,934)	-	(133,934)	(14,865)	-	(14,865)
Unearned revenues	243,520	-	243,520	253,830	-	253,830
Accrued leave	13,016	-	13,016	78,486	-	78,486
Deferred inflows of resources	(36,023)	-	(36,023)	(36,333)	-	(36,333)
Total adjustments	<u>485,475</u>	<u>-</u>	<u>485,475</u>	<u>576,059</u>	<u>-</u>	<u>576,059</u>
Net cash provided by (used in) operating activities	<u>\$ 2,453,068</u>	<u>\$ 7,500</u>	<u>\$ 2,460,568</u>	<u>\$ 2,476,810</u>	<u>\$ (6,838)</u>	<u>\$ 2,469,972</u>
Supplemental disclosures of non-cash investing and financing activities:						
Property and equipment acquired by an increase in accounts payable	<u>\$ 11,075</u>	<u>\$ -</u>	<u>\$ 11,075</u>	<u>\$ 168,317</u>	<u>\$ -</u>	<u>\$ 168,317</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 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.

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.

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 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.

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.

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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Net Position (Continued)

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. The Commission has designated \$250,000 and \$250,000 of the unrestricted net assets to cover building improvements and future furniture and equipment costs, respectively. The Commission may change such reserved amounts based on perceived operating conditions and situations.

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, 2020, the Commission's Operating Fund deposits had a carrying amount of \$14,016,985 and a bank balance of \$12,866,148. Of the bank balance, \$6,006,237 was covered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NUCA), and \$6,859,860 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, 2020, the Commission's Recovery Fund deposits had a carrying amount and bank balance of \$733,005. Of the bank balance, \$733,005 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.

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, 2020, 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	\$ 5,855,310	4 months	N/A

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

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

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, 2020, is as follows:

Carrying amount of deposits with private financial institutions	\$ 1,362,516
Money market mutual funds	7,572,164
Investments in certificates of deposit	5,855,310
Total deposits and investments	<u>\$14,789,990</u>
Current:	
Cash and cash equivalents	\$ 6,383,573
Short-term investments	8,407,110
Total deposits and investments	<u>\$14,790,683</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost 7/1/2019	Additions	Retirements	Cost 6/30/2020	Accumulated Depreciated	Net Amount
Building/Land	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 986,075	\$ 3,326,175
Building						
Improvements	636,627	160,913	-	797,540	173,252	624,288
Furniture/ Equipment	2,327,554	350,613	(81,264)	2,596,903	1,265,150	1,331,753
Totals	<u>\$ 7,276,431</u>	<u>\$ 511,526</u>	<u>\$ (81,264)</u>	<u>\$ 7,706,693</u>	<u>\$ 2,424,477</u>	<u>\$ 5,282,216</u>
	Cost 7/1/2018	Additions	Retirements	Cost 6/30/2019	Accumulated Depreciated	Net Amount
Building/Land	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 893,218	\$ 3,419,032
Building						
Improvements	254,515	382,112	-	636,627	125,841	510,786
Furniture/ Equipment	1,838,626	588,383	(99,455)	2,327,554	1,109,608	1,217,946
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 4 - NON-CURRENT LIABILITIES**Line of Credit:**

The Commission had a line of credit agreement up to a maximum of \$500,000, with interest payable monthly at a floating rate of 1-month LIBOR. During the year ended June 30, 2020, the Commission repaid the full outstanding balance on the Line of Credit in August 2019. The Line of Credit matured on May 31, 2020. As described in Note 8, on July 8, 2020, the Commission renewed the line of credit agreement with a maturity date of July 8, 2021.

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 6/30/2019	Increases	Decreases	Balance 6/30/2020	Current Portion
Accrued leave	\$ 359,856	\$ 340,912	\$ 327,896	\$ 372,872	\$ 31,620
Line of credit	160,000	-	160,000	-	-
	<u>\$ 519,856</u>	<u>\$ 340,912</u>	<u>\$ 487,896</u>	<u>\$ 372,872</u>	<u>\$ 31,620</u>

	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>

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, 2020 was \$3,648,955; the Commission's total payroll was \$3,671,585. 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 total contribution for the year ended June 30, 2020 was \$556,157, which consisted of \$219,299 (net of forfeitures) from the Commission and \$336,858 from employees. 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.

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.

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)

Teachers' and State Employees' Retirement System (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 Commission's contractually-required contribution rates for the years ended June 30, 2020 and 2019 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, 2020 and 2019.

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 2019 *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. 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 2019 *Comprehensive Annual Financial Report*.

NORTH CAROLINA REAL ESTATE COMMISSION
Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

Net Pension Liability

At June 30, 2020, 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, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. 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, 2020 and June 30, 2019, 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	12/31/2018
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, 2018 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

Actuarial Assumptions (Continued)

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, 2019 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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, 2019 is 1.4%.

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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 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:

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

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

NOTE 5 - RETIREMENT PLANS (Continued)*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions*

For the year ended June 30, 2020, the Commission recognized pension expense of (\$6,487). At June 30, 2020, 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	-	5,455
Employer contributions subsequent to the measurement date	-	-
	<u>\$ -</u>	<u>\$ 5,455</u>

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:

2021	\$ (5,455)
2022	-
2023	-
2024	-
2025	-
	<u>\$ (5,455)</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, 2020:

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

During the year ended June 30, 2020, there was no change in the Commission's net pension liability. The Commission reported a net pension liability of \$0 as of June 30, 2020 and 2019.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

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, 2020 and 2019.

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 \$35,878 and \$50,417 for the years ended June 30, 2020 and 2019, 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 2019 *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.

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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

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.

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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Retirement Health Benefit Fund (RHBF) (Continued)

Contributions (Continued)

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, 2020 and 2019 was 0% of covered payroll. The Commission's contributions to the RHBF were \$0 for the years ended June 30, 2020 and 2019.

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, 2020 and 2019 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

NOTE 6 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Net Other Postemployment Benefits Liability and Asset

Net OPEB Liability: At June 30, 2020, 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, 2019. The total RHBF liability used to calculate the net RHBF liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total RHBF liability to June 30, 2019. 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, 2020, 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, 2019. The total DIPNC asset used to calculate the net DIPNC asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total DIPNC asset to June 30, 2019. 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, 2018, 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, 2019 utilizing update procedures incorporating the actuarial assumptions.

	<u>RHBF</u>	<u>DIPNC</u>
Valuation Date	12/31/2018	12/31/2018
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% - 9.50%	5.0% - 9.50%
Healthcare Cost Trend - Medicare Advantage	5.0% - 6.50%	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
Notes to Financial Statements

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, 2019.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2019 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, 2019 is 1.4%.

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

Notes to Financial Statements

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, 2018 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 3.5%. 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 3.5% was used as the discount rate used to measure the total OPEB liability. The 3.5% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

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, 2019, 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 (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
<hr/> \$0	<hr/> \$0	<hr/> \$0

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

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:

RHBFB net OPEB liability

1% Decrease (Medical - 4.0 - 5.5% Pharmacy - 4.0 - 8.5% Med. Advantage - 4.0% - 5.5% Administrative - 2.0%)	Current Discount Rate (Medical - 5.0 - 6.5% Pharmacy - 5.0 - 9.5% Med. Advantage - 5.0 - 6.5% Administrative - 3.0%)	1% Increase (Medical - 6.0 - 7.5% Pharmacy - 6.0 - 10.5% Med. Advantage - 6.0 - 7.5% Administrative - 4.0%)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

DIPNC net OPEB Liability

1% Decrease (Medical - 4.0 - 5.5% Pharmacy - 4.0 - 8.5%)	Current Discount Rate (Medical - 5.0 - 6.5% Pharmacy - 5.0 - 9.5%)	1% Increase (Medical - 6.0 - 7.5% Pharmacy - 6.0 - 10.5%)
<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, 2020, the Board recognized other postemployment benefits expense of \$(29,413). At June 30, 2020, 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	-	88,608	124	-
Employer contributions subsequent to the measurement date	-	-	-	-
	<u>\$ -</u>	<u>\$ 88,608</u>	<u>\$ 124</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>
2021	\$ (29,536)	\$ 124
2022	(29,536)	-
2023	(29,536)	-
2024	-	-
	<u>\$ (88,608)</u>	<u>\$ 124</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, 2020, 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, 2020 and June 30, 2019.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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 16, 2020, which is the date the financial statements were available to be issued. Management discovered no other subsequent events which should be disclosed other than noted below.

The line of credit described in Note 4 was subsequently renewed on July 8, 2020, with a maturity date of July 8, 2021.

The Commission's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (Covid-19) which has been declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain; however it may result in a material adverse impact on the Commission's financial position, operations and cash flows.

The audit was conducted in approximately 130 hours at a cost of \$16,850.

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, 2020 and 2019

	<u>2020</u>	<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)	0.00000%	0.00000%	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	0.00%	0.00%	0.00%	76.03%	16.73%	5.11%	15.38%
Plan fiduciary net position as a percentage of the total pension liability	87.56%	87.61%	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>\$ -</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>	<u><u>\$ -</u></u>
Covered-employee payroll	\$ -	\$ -	\$ -	\$ 62,860	\$ 191,605	\$ 275,526	\$ 434,273
Contributions as a percentage of covered- employee payroll	0.00%	0.00%	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.*