

**NORTH CAROLINA REAL ESTATE
COMMISSION**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021



NORTH CAROLINA REAL ESTATE COMMISSION

Table of Contents

	<u>Page No.</u>
Management's Discussion and Analysis	1
Independent Auditor's Report	4
<i>Financial Statements</i>	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
<i>Supplementary Information</i>	
Proportionate Share of Net OPEB Liability	20

NORTH CAROLINA REAL ESTATE COMMISSION
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022

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, 2022. 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 decreased \$866,178 or 7.77%, attributable primarily to a decrease in applications.

Operating Fund expenses increased by \$978,951 or 13.34%, attributable primarily to increases in personnel costs, supplies, equipment, and depreciation expense. The Real Estate Education and Recovery Fund (Recovery Fund) expenses were \$33,517 for claims approved to be paid in the fiscal year ended June 30, 2022.

Net non-operating revenues decreased \$39,686 or 104.92% attributable primarily to the disposal of equipment.

As a result of this year's operations, the Commission's net position increased by \$1,931,048 or 10.47%. The net position of the Commission's Operating Fund increased by \$1,211,936. The net position of the Commission's Recovery Fund increased by \$719,112.

The Commission's Investment in Capital Assets balance (net of accumulated depreciation) was \$5,156,036, a decrease of 2.75% from the prior year-end. This decrease was attributable to capital asset additions less disposals in the fiscal year ended June 30, 2022.

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, 2022

Basic Financial Statements (Continued)

The Statement of Net Position (page 7) 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 8) presents information on how the Commission's assets changed as a result of the fiscal year's operations.

The Statement of Cash Flows (page 9) 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 10) 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:

	2022	2021	2020
Current assets	\$ 20,858,014	\$ 19,322,112	\$ 15,116,593
Non-current assets	5,657,214	5,301,791	5,282,216
Deferred outflows of resources	-	-	124
Total assets	26,515,228	24,623,903	20,398,933
Current liabilities	5,711,539	5,737,052	5,372,086
Non-current liabilities	401,368	386,042	341,252
Deferred inflows of resources	29,536	59,072	94,063
Total liabilities	6,142,443	6,182,166	5,807,401
Invested in capital assets, net of related debt	5,156,036	5,301,791	5,282,216
Restricted	1,495,401	776,289	773,301
Unrestricted	13,721,348	12,363,657	8,536,015
Total net position	\$ 20,372,785	\$ 18,441,737	\$ 14,591,532
Operating revenues	\$ 10,283,675	\$ 11,150,678	\$ 8,901,176
Operating expenses	8,350,766	7,338,298	6,926,083
Operating income	1,932,909	3,812,380	1,975,093
Non-operating revenues (expenses)	(1,861)	37,825	130,404
Changes in net position	\$ 1,931,048	\$ 3,850,205	\$ 2,105,497

NORTH CAROLINA REAL ESTATE COMMISSION
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022

Events/Conditions (Expected to Impact) Affecting Future Operations

- A guarded economic environment, easily influenced by the stock market and U.S. and world events could disrupt the real estate market at any time and adversely impact revenue.
- 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.
- Significant structural shifts in organized real estate occurring around the nation could impact Commission operations.

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

Board of Directors
North Carolina Real Estate Commission
Raleigh, North Carolina

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the North Carolina Real Estate Commission and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Carolina Real Estate Commission's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters we identified during the audit.

Emphasis of Matter

As discussed in Note 1, the financial statements presented are 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, 2022 and 2021, or the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 Schedule of Proportionate Share of Net Pension Liability on page 20 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
September 26, 2022

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Net Position
June 30, 2022 and 2021

	2022			2021		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
ASSETS:						
Current assets:						
Cash	\$ 5,154,861	\$ 851,401	\$ 6,006,262	\$ 5,356,897	\$ 124,750	\$ 5,481,647
Investments, current portion	13,811,669	651,606	14,463,275	12,759,840	651,509	13,411,349
Inventory	96,471	-	96,471	88,065	-	88,065
Accrued interest	8,337	911	9,248	5,356	30	5,386
Accounts receivable	64,114	-	64,114	87,600	-	87,600
Prepaid expenses	218,644	-	218,644	248,065	-	248,065
Total current assets	19,354,096	1,503,918	20,858,014	18,545,823	776,289	19,322,112
Non-current assets:						
Investments, less current portion	501,178	-	501,178	-	-	-
Capital assets, net of depreciation	5,156,036	-	5,156,036	5,301,791	-	5,301,791
Total non-current assets	5,657,214	-	5,657,214	5,301,791	-	5,301,791
Total assets	25,011,310	1,503,918	26,515,228	23,847,614	776,289	24,623,903
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	160,259	8,517	168,776	147,352	-	147,352
Unearned revenues	5,505,110	-	5,505,110	5,556,115	-	5,556,115
Accrued leave - current portion	37,653	-	37,653	33,585	-	33,585
Total current liabilities	5,703,022	8,517	5,711,539	5,737,052	-	5,737,052
Non-current liabilities:						
Accrued leave - long-term portion	401,368	-	401,368	386,042	-	386,042
Total non-current liabilities	401,368	-	401,368	386,042	-	386,042
Total liabilities	6,104,390	8,517	6,112,907	6,123,094	-	6,123,094
DEFERRED INFLOWS OF RESOURCES:						
Pension and other postemployment benefit deferred inflows	29,536	-	29,536	59,072	-	59,072
NET POSITION:						
Invested in capital assets	5,156,036	-	5,156,036	5,301,791	-	5,301,791
Restricted	-	1,495,401	1,495,401	-	776,289	776,289
Unrestricted	13,721,348	-	13,721,348	12,363,657	-	12,363,657
Total net position	\$ 18,877,384	\$ 1,495,401	\$ 20,372,785	\$ 17,665,448	\$ 776,289	\$ 18,441,737

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022			2021		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Operating revenues:						
License renewals	\$ 5,485,885	\$ -	\$ 5,485,885	\$ 5,185,763	\$ -	\$ 5,185,763
Application fees	2,446,040	-	2,446,040	3,617,190	-	3,617,190
Publication fees	276,960	-	276,960	168,056	-	168,056
Course registration fees	301,775	-	301,775	281,358	-	281,358
Continuing education course student fees	1,700,590	-	1,700,590	1,815,620	-	1,815,620
Certification fees	37,845	-	37,845	38,970	-	38,970
Miscellaneous	32,930	1,650	34,580	41,246	2,475	43,721
Total operating revenues	<u>10,282,025</u>	<u>1,650</u>	<u>10,283,675</u>	<u>11,148,203</u>	<u>2,475</u>	<u>11,150,678</u>
Operating expenses:						
Personnel	5,975,202	-	5,975,202	5,480,528	-	5,480,528
Commission	125,658	-	125,658	40,852	-	40,852
Building	326,459	-	326,459	209,309	-	209,309
Supplies and equipment	964,502	-	964,502	834,746	-	834,746
Education and examination	7,581	-	7,581	3,738	-	3,738
Professional services	24,601	-	24,601	50,665	-	50,665
Mail services	11,519	-	11,519	10,849	-	10,849
Credit card charges	223,678	-	223,678	232,195	-	232,195
Depreciation	563,728	-	563,728	422,672	-	422,672
Miscellaneous	94,321	-	94,321	52,744	-	52,744
Claims	-	33,517	33,517	-	-	-
Total operating expenses	<u>8,317,249</u>	<u>33,517</u>	<u>8,350,766</u>	<u>7,338,298</u>	<u>-</u>	<u>7,338,298</u>
Operating income (loss)	<u>1,964,776</u>	<u>(31,867)</u>	<u>1,932,909</u>	<u>3,809,905</u>	<u>2,475</u>	<u>3,812,380</u>
Non-operating revenues (expenses):						
Net investment income	22,018	979	22,997	37,361	513	37,874
Loss on disposal of equipment	(24,858)	-	(24,858)	(49)	-	(49)
Total non-operating revenues (expenses)	<u>(2,840)</u>	<u>979</u>	<u>(1,861)</u>	<u>37,312</u>	<u>513</u>	<u>37,825</u>
Changes in net position	1,961,936	(30,888)	1,931,048	3,847,217	2,988	3,850,205
Transfer to Recovery Fund	(750,000)	750,000	-	-	-	-
Net position - beginning of year	17,665,448	776,289	18,441,737	13,818,231	773,301	14,591,532
Net position - end of year	<u>\$ 18,877,384</u>	<u>\$ 1,495,401</u>	<u>\$ 20,372,785</u>	<u>\$ 17,665,448</u>	<u>\$ 776,289</u>	<u>\$ 18,441,737</u>

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022			2021		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Cash flows from operating activities:						
Cash received from fees	\$ 10,254,506	\$ -	\$ 10,254,506	\$ 11,544,323	\$ -	\$ 11,544,323
Cash payments to employees for services	(5,985,344)	-	(5,985,344)	(5,468,640)	-	(5,468,640)
Cash payments for operating expenses	(770,116)	-	(770,116)	(535,100)	-	(535,100)
Cash payments to suppliers of goods & services	(974,281)	-	(974,281)	(1,077,068)	-	(1,077,068)
Cash payments for Recovery Fund expenses	-	(23,350)	(23,350)	-	2,475	2,475
Net cash provided by (used in) operating activities	2,524,765	(23,350)	2,501,415	4,463,515	2,475	4,465,990
Cash flows from noncapital financing activities:						
Transfer from Operating to Recovery Fund	(750,000)	750,000	-	-	-	-
Net cash provided by (used in) noncapital financing activities	(750,000)	750,000	-	-	-	-
Cash flows from capital and related financing activities:						
Acquisition of capital assets	(442,831)	-	(442,831)	(442,296)	-	(442,296)
Net cash used in capital and related financing activities	(442,831)	-	(442,831)	(442,296)	-	(442,296)
Cash flows from investing activities:						
Purchases of investments	(13,049,798)	(97)	(13,049,895)	(14,569,226)	(651,509)	(15,220,735)
Sales of investments	11,496,791	-	11,496,791	9,576,841	650,730	10,227,571
Net investment income	19,037	98	19,135	66,765	779	67,544
Net cash provided by (used in) investing activities	(1,533,970)	1	(1,533,969)	(4,925,620)	-	(4,925,620)
Net increase (decrease) in cash	(202,036)	726,651	524,615	(904,401)	2,475	(901,926)
Cash - beginning of year	5,356,897	124,750	5,481,647	6,261,298	122,275	6,383,573
Cash - end of year	\$ 5,154,861	\$ 851,401	\$ 6,006,262	\$ 5,356,897	\$ 124,750	\$ 5,481,647
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 1,964,776	\$ (31,867)	\$ 1,932,909	\$ 3,809,905	\$ 2,475	\$ 3,812,380
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	563,728	-	563,728	422,672	-	422,672
Changes in assets and liabilities:						
Accounts receivable	23,486	-	23,486	(5,645)	-	(5,645)
Inventory	(8,406)	-	(8,406)	(11,885)	-	(11,885)
Prepaid expenses	29,421	-	29,421	(115,346)	-	(115,346)
Deferred outflows of resources	-	-	-	124	-	124
Accounts payable and accrued liabilities	12,907	8,517	21,424	(49,839)	-	(49,839)
Unearned revenues	(51,005)	-	(51,005)	401,765	-	401,765
Accrued leave	19,394	-	19,394	46,755	-	46,755
Deferred inflows of resources	(29,536)	-	(29,536)	(34,991)	-	(34,991)
Total adjustments	559,989	8,517	568,506	653,610	-	653,610
Net cash provided by (used in) operating activities	\$ 2,524,765	\$ (23,350)	\$ 2,501,415	\$ 4,463,515	\$ 2,475	\$ 4,465,990
Supplemental disclosures of non-cash investing and financing activities:						
Property and equipment acquired by an increase in accounts payable	\$ -	\$ -	\$ -	\$ 11,075	\$ -	\$ 11,075

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. In addition, 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.

Reporting Entity

For financial reporting purposes, the Commission is a nonmajor enterprise fund of the primary government of the State of North Carolina and may be reported as such in the State's *Annual Comprehensive Financial Report* (ACFR).

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Reporting Entity (Continued)

These financial statements for the Commission 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. 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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Long-Lived Assets (Continued)

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 Inflows of Resources

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 other postemployment benefit expense that resulted from the implementation of 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.

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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS

The Commission has a formal Investment Policy which specifically addresses where and how the Commission invests its funds. Among other things, the policy includes target goals for the deposit of funds in NC pooling institutions, non-NC pooling institutions, and minority owned depository institutions; laddering of terms for future availability; and protection of the funds through collateralization, FDIC insurance and other lawful means.

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, 2022, the Commission's Operating Fund deposits had a carrying amount of \$19,467,708 and bank balances of \$20,740,983. Of the bank balances, \$14,310,625 was covered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NUCA), and \$6,430,358 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, 2022, the Commission's Recovery Fund deposits had a carrying amount and bank balance of \$1,503,007. Of the bank balance, \$901,606 was covered by the FDIC and \$601,400 was uninsured in certain financial institutions that had pledged collateral to protect the uninsured balances. The Recovery Fund had \$0 in financial institutions that 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, 2022, 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	\$13,915,635	7 months	N/A

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

NORTH CAROLINA REAL ESTATE COMMISSION
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

A reconciliation of deposits and investments for the Commission to the basic financial statements at June 30, 2022, is as follows:

Carrying amount of deposits with private financial institutions	\$ 1,699,041
Money market mutual funds	5,356,039
Investments in certificates of deposit	13,915,635
Total deposits and investments	<u>\$20,970,715</u>
Current:	
Cash and cash equivalents	\$ 6,006,262
Short-term investments	14,463,275
Noncurrent:	
Investments	501,178
Total deposits and investments	<u>\$20,970,715</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost 6/30/2021	Additions	Retirements	Cost 6/30/2022	Accumulated Depreciated	Net Amount
Building/Land	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 1,171,789	\$ 3,140,461
Building						
Improvements	1,043,223	72,000	-	1,115,223	299,744	815,479
Furniture/						
Equipment	2,790,603	370,831	(126,338)	3,035,096	1,835,000	1,200,096
Totals	<u>\$ 8,146,076</u>	<u>\$ 442,831</u>	<u>\$ (126,338)</u>	<u>\$ 8,462,569</u>	<u>\$ 3,306,533</u>	<u>\$ 5,156,036</u>
	Cost 7/1/2020	Additions	Retirements	Cost 6/30/2021	Accumulated Depreciated	Net Amount
Building/Land	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 1,078,932	\$ 3,233,318
Building						
Improvements	797,540	245,683	-	1,043,223	228,510	814,713
Furniture/						
Equipment	2,596,903	196,613	(2,913)	2,790,603	1,536,843	1,253,760
Totals	<u>\$ 7,706,693</u>	<u>\$ 442,296</u>	<u>\$ (2,913)</u>	<u>\$ 8,146,076</u>	<u>\$ 2,844,285</u>	<u>\$ 5,301,791</u>

NORTH CAROLINA REAL ESTATE COMMISSION
Notes to Financial Statements

NOTE 4 - NON-CURRENT LIABILITIES

Changes in non-current liabilities are as follows:

	Balance 6/30/2021	Increases	Decreases	Balance 6/30/2022	Current Portion
Accrued leave	<u>\$ 419,627</u>	<u>\$ 436,779</u>	<u>\$ 417,385</u>	<u>\$ 439,021</u>	<u>\$ 37,653</u>

	Balance 6/30/2020	Increases	Decreases	Balance 6/30/2021	Current Portion
Accrued leave	<u>\$ 372,872</u>	<u>\$ 293,732</u>	<u>\$ 246,977</u>	<u>\$ 419,627</u>	<u>\$ 33,585</u>

Line of Credit:

The Commission has a line of credit (LOC) agreement up to a maximum of \$500,000, with interest payable monthly at a floating rate of 1-month LIBOR and a maturity date of February 8, 2023. During the years ended June 30, 2022 and 2021, the Commission made no draws on the line of credit. As of June 30, 2022 and 2021, the line of credit had a balance of \$0.

Under GASB Statement No. 88, the line of credit 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.

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, 2022 was \$4,228,439; the Commission's total payroll was \$4,252,513. The Commission's payroll for employees covered by the Plan for the year ended June 30, 2021 was \$3,927,746; the Commission's total payroll was \$3,936,701.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

North Carolina Licensing Boards Retirement Savings Plan (Continued)

The total contribution for the year ended June 30, 2022 was \$625,942, which consisted of \$234,688 (net of forfeitures) from the Commission and \$391,254 from employees. The total contribution for the year ended June 30, 2021 was \$525,276, which consisted of \$204,858 (net of forfeitures) from the Commission and \$320,418 from employees.

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 \$48,476 and \$34,780 for the years ended June 30, 2022 and 2021, respectively.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Commission participates in the Retiree Health Benefit Fund ("RHBF"), an Other Postemployment Benefit ("OPEB") plan administered by the State of North Carolina. The 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 2021 *Annual Comprehensive Financial Report*. An electronic version of this report is available by accessing the N.C. 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 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 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.

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.

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.

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) (Continued)

Plan Administration (Continued)

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. 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, 2022 and 2021 was 0% of covered payroll. The Commission's contributions to the RHBF were \$0 for the years ended June 30, 2022 and 2021.

NORTH CAROLINA REAL ESTATE COMMISSION
Notes to Financial Statements

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

Net Other Postemployment Benefits Liability and Asset

Net OPEB Liability: At June 30, 2022, 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, 2021. The total RHBF liability used to calculate the net RHBF liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total RHBF liability to June 30, 2021. 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.

Changes in Long-Term Liabilities and Assets

During the year ended June 30, 2022, 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, 2022 and June 30, 2021.

Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2022 and 2021, the Commission recognized other postemployment benefits expense of \$(29,532) and \$(29,412), respectively. At June 30, 2022 and 2021, the Commission reported deferred inflows of resources related to RHBF of \$29,536 and \$59,072, respectively, from differences between employer contributions and proportionate share of contributions.

Amounts reported as deferred inflows of resources related to RHBF will be recognized in other postemployment benefit expense as follows:

<u>Year Ending June 30:</u>	<u>RHBF</u>
2023	<u>\$ (29,536)</u>

NOTE 7 - RISK MANAGEMENT AND CONTINGENCIES

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

The Commission is involved in disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management, the results of such actions during the years under audit do not materially affect the financial position of the Commission at year-end.

NORTH CAROLINA REAL ESTATE COMMISSION
Notes to Financial Statements

NOTE 8 - SUBSEQUENT EVENT

Management of the Commission evaluated subsequent events through September 26, 2022, which is the date the financial statements were available to be issued. Management discovered no subsequent events which should be disclosed.

The audit was conducted in approximately 120 hours at a cost of \$20,000.

NORTH CAROLINA REAL ESTATE COMMISSION
Proportionate Share of Net OPEB Liability
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportionate share percentage of collective net OPEB liability (asset)	0.00000%	0.00000%	0.00000%	0.00000%	0.00042%
Proportionate share of collective net OPEB liability (asset)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Net OPEB liability as a percentage of covered payroll	n/a	n/a	n/a	n/a	n/a
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	3.52%	6.92%	4.40%	4.40%	3.52%

**Information for periods prior to the implementation of GASB 75 is unavailable and will be completed for each year going forward as information becomes available.*