

NORTH CAROLINA REAL ESTATE COMMISSION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013



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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, 2014

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, 2014. Please read it in conjunction with the Commission's financial statements and notes to the financial statements which follow this section.

Financial Highlights

The Commission's operating revenues increased \$488,286 or 8.8%, attributable largely to an increase in the license renewal fee and, to a lesser extent, continuing gradual improvement in the real estate industry, resulting in increasing numbers of license applicants.

Operating expenses remained stable, increasing only \$43,021, or 0.7%, attributable to a small increase in building maintenance expenses, interest expense, and an accompanying increase in the non-cash expense of building depreciation, collectively resulting from the completion and occupation of the office building expansion.

Net non-operating revenues increased \$109,969 or 116% while the Commission's operating investment balance decreased by \$702,022 from the previous year. Net non-operating revenues increased primarily due to a prior year book entry to write off certain capital improvements replaced during the building addition construction. The Commission's investment balance decrease resulted in large part from the Commission's principal payments on its construction line of credit.

As a result of this year's operations, the Commission's total net position increased by \$72,398 or 1.0%. The net position of the Commission's operating fund increased by \$71,666. The net position of the Commission's Recovery Fund increased by \$732, consisting entirely of investment income received.

The Commission's Investment in Capital Assets balance (net of accumulated depreciation and related debt) was \$3,299,848, an increase of 13.8% from the prior year end. This increase was attributable in large part to a decrease in debt resulting from the Commission's principal payment on its line of credit.

The Commission's office building addition was completed in the prior fiscal year. During the fiscal year ended June 30, 2014, the Commission voted to make principal payments on its line of credit totaling \$500,000.

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.

NORTH CAROLINA REAL ESTATE COMMISSION
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

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.

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:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 8,340,251	\$ 8,534,533	\$ 9,437,927
Non-current assets	4,623,637	4,824,403	4,420,755
Total assets	<u>12,963,888</u>	<u>13,358,936</u>	<u>13,858,682</u>
Current liabilities	4,171,482	4,060,380	3,812,547
Non-current liabilities	1,353,666	1,932,214	2,067,416
Total liabilities	<u>5,525,148</u>	<u>5,992,594</u>	<u>5,879,963</u>
Invested in capital assets, net of related debt	3,299,848	2,900,614	2,654,251
Restricted	466,139	465,407	594,216
Unrestricted	3,672,753	4,000,321	4,730,252
Total net position	<u>\$ 7,438,740</u>	<u>\$ 7,366,342</u>	<u>\$ 7,978,719</u>
Operating revenues	\$ 6,014,325	\$ 5,526,039	\$ 5,529,480
Operating expenses	5,957,936	6,046,905	6,115,968
Operating income (loss)	56,389	(520,866)	(586,488)
Non-operating revenues (expenses)	16,009	(91,511)	25,556
Changes in net position	<u>\$ 72,398</u>	<u>\$ (612,377)</u>	<u>\$ (560,932)</u>

NORTH CAROLINA REAL ESTATE COMMISSION
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Events/Conditions (Expected to Impact) Affecting Future Operations

- A guarded economic environment, easily influenced by stock market, U.S., and world events may impede or negate any gradual improvements in the real estate market and adversely impact revenue. Additionally, investment income remains at historic lows with no expectation of significant growth in the foreseeable future. The duration or severity of the impact of these factors, and the length of the recovery therefrom cannot be predicted.
- The total number of new licensees, while increasing, is not yet replacing the normal attrition of those existing licensees who do not renew. Consequently, the overall total number of licensees continues to decline, albeit at slower pace, which has an adverse effect on revenue.
- The number of licensees who move their license status to inactive or who do not complete their post-licensing requirements after initial licensure reduces the number of licensees completing continuing education requirements. This adversely affects continuing education student fee income. Therefore, this income fluctuates with licensees' expectations of success in the real estate market in the current economic environment.

Contacting the Commission

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Real Estate Commission (the "Commission"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of June 30, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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 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 9, 2014

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Net Position
June 30, 2014 and 2013

	2014			2013		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
ASSETS:						
Current assets:						
Cash	\$ 4,696,843	\$ 65,647	\$ 4,762,490	\$ 4,206,417	\$ 95,132	\$ 4,301,549
Investments, current portion	3,048,670	400,299	3,448,969	3,650,692	425,000	4,075,692
Inventory	23,362	-	23,362	47,252	-	47,252
Accrued interest	1,763	193	1,956	2,937	135	3,072
Accounts receivable	15,363	-	15,363	22,719	-	22,719
Prepaid expenses	88,111	-	88,111	84,249	-	84,249
Total current assets	<u>7,874,112</u>	<u>466,139</u>	<u>8,340,251</u>	<u>8,014,266</u>	<u>520,267</u>	<u>8,534,533</u>
Non-current assets:						
Investments, less current portion	200,000	-	200,000	300,000	-	300,000
Capital assets, net of depreciation	4,423,637	-	4,423,637	4,524,403	-	4,524,403
Total non-current assets	<u>4,623,637</u>	<u>-</u>	<u>4,623,637</u>	<u>4,824,403</u>	<u>-</u>	<u>4,824,403</u>
Total assets	<u>12,497,749</u>	<u>466,139</u>	<u>12,963,888</u>	<u>12,838,669</u>	<u>520,267</u>	<u>13,358,936</u>
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	141,922	-	141,922	85,440	54,860	140,300
Unearned revenues	4,010,980	-	4,010,980	3,920,080	-	3,920,080
Accrued leave - current portion	18,580	-	18,580	-	-	-
Total current liabilities	<u>4,171,482</u>	<u>-</u>	<u>4,171,482</u>	<u>4,005,520</u>	<u>54,860</u>	<u>4,060,380</u>
Non-current liabilities:						
Line of credit	1,123,789	-	1,123,789	1,623,789	-	1,623,789
Accrued leave - long-term portion	229,877	-	229,877	308,425	-	308,425
Total non-current liabilities	<u>1,353,666</u>	<u>-</u>	<u>1,353,666</u>	<u>1,932,214</u>	<u>-</u>	<u>1,932,214</u>
Total liabilities	<u>5,525,148</u>	<u>-</u>	<u>5,525,148</u>	<u>5,937,734</u>	<u>54,860</u>	<u>5,992,594</u>
NET POSITION:						
Invested in capital assets, net of related debt	3,299,848	-	3,299,848	2,900,614	-	2,900,614
Restricted	-	466,139	466,139	-	465,407	465,407
Unrestricted	3,672,753	-	3,672,753	4,000,321	-	4,000,321
Total net position	<u>\$ 6,972,601</u>	<u>\$ 466,139</u>	<u>\$ 7,438,740</u>	<u>\$ 6,900,935</u>	<u>\$ 465,407</u>	<u>\$ 7,366,342</u>

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014			2013		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Operating revenues:						
License renewals	\$ 4,183,070	\$ -	\$ 4,183,070	\$ 3,808,175	\$ -	\$ 3,808,175
Application fees	334,285	-	334,285	246,205	-	246,205
Publication fees	178,822	-	178,822	164,862	-	164,862
Course registration fees	130,525	-	130,525	133,300	-	133,300
Continuing education course student fees	1,134,810	-	1,134,810	1,126,510	-	1,126,510
Certification fees	31,535	-	31,535	27,125	-	27,125
Miscellaneous	21,278	-	21,278	19,862	-	19,862
Total operating revenues	<u>6,014,325</u>	<u>-</u>	<u>6,014,325</u>	<u>5,526,039</u>	<u>-</u>	<u>5,526,039</u>
Operating expenses:						
Personnel	4,304,064	-	4,304,064	4,355,846	-	4,355,846
Commission	146,701	-	146,701	133,268	-	133,268
Building	167,753	-	167,753	147,670	-	147,670
Supplies and equipment	742,151	-	742,151	729,653	-	729,653
Education and examination	60,822	-	60,822	63,101	-	63,101
Professional services	59,323	-	59,323	63,255	-	63,255
Mail services	40,213	-	40,213	38,779	-	38,779
Credit card charges	116,609	-	116,609	117,326	-	117,326
Depreciation	218,723	-	218,723	195,294	-	195,294
Interest	32,657	-	32,657	16,585	-	16,585
Miscellaneous	68,910	10	68,920	54,128	-	54,128
Claims	-	-	-	-	132,000	132,000
Total operating expenses	<u>5,957,926</u>	<u>10</u>	<u>5,957,936</u>	<u>5,914,905</u>	<u>132,000</u>	<u>6,046,905</u>
Operating income (loss)	<u>56,399</u>	<u>(10)</u>	<u>56,389</u>	<u>(388,866)</u>	<u>(132,000)</u>	<u>(520,866)</u>
Non-operating revenues (expenses):						
Net investment income	15,267	742	16,009	18,365	3,191	21,556
Loss on disposal of equipment	-	-	-	(113,067)	-	(113,067)
Total non-operating revenue (expense)	<u>15,267</u>	<u>742</u>	<u>16,009</u>	<u>(94,702)</u>	<u>3,191</u>	<u>(91,511)</u>
Changes in net position	<u>71,666</u>	<u>732</u>	<u>72,398</u>	<u>(483,568)</u>	<u>(128,809)</u>	<u>(612,377)</u>
Net position - beginning of year	<u>6,900,935</u>	<u>465,407</u>	<u>7,366,342</u>	<u>7,384,503</u>	<u>594,216</u>	<u>7,978,719</u>
Net position - end of year	<u>\$ 6,972,601</u>	<u>\$ 466,139</u>	<u>\$ 7,438,740</u>	<u>\$ 6,900,935</u>	<u>\$ 465,407</u>	<u>\$ 7,366,342</u>

See Notes to Financial Statements.

NORTH CAROLINA REAL ESTATE COMMISSION
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014			2013		
	Operating Fund	Recovery Fund	Total	Operating Fund	Recovery Fund	Total
Cash flows from operating activities:						
Cash received from fees	\$ 6,112,581	\$ -	\$ 6,112,581	\$ 5,894,992	\$ -	\$ 5,894,992
Cash payments to employees for services	(4,364,032)	-	(4,364,032)	(4,348,333)	-	(4,348,333)
Cash payments for operating expenses	(1,358,629)	-	(1,358,629)	(1,495,702)	-	(1,495,702)
Cash payments for Recovery Fund expenses	-	(54,870)	(54,870)	-	(157,000)	(157,000)
Net cash provided by (used in) operating activities	<u>389,920</u>	<u>(54,870)</u>	<u>335,050</u>	<u>50,957</u>	<u>(157,000)</u>	<u>(106,043)</u>
Cash flows from capital and related financing activities:						
Repayment of line of credit	(500,000)	-	(500,000)	(142,715)	-	(142,715)
Acquisition of capital assets	(117,957)	-	(117,957)	(412,009)	-	(412,009)
Net cash used in capital and related financing activities	<u>(617,957)</u>	<u>-</u>	<u>(617,957)</u>	<u>(554,724)</u>	<u>-</u>	<u>(554,724)</u>
Cash flows from investing activities:						
Purchases/sales of investments - net	702,022	24,701	726,723	(1,354,060)	175,000	(1,179,060)
Net investment income	16,441	684	17,125	18,299	4,458	22,757
Net cash provided by (used in) investing activities	<u>718,463</u>	<u>25,385</u>	<u>743,848</u>	<u>(1,335,761)</u>	<u>179,458</u>	<u>(1,156,303)</u>
Net increase (decrease) in cash	490,426	(29,485)	460,941	(1,839,528)	22,458	(1,817,070)
Cash - beginning of year	4,206,417	95,132	4,301,549	6,045,945	72,674	6,118,619
Cash - end of year	<u>\$ 4,696,843</u>	<u>\$ 65,647</u>	<u>\$ 4,762,490</u>	<u>\$ 4,206,417</u>	<u>\$ 95,132</u>	<u>\$ 4,301,549</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 56,399	\$ (10)	\$ 56,389	\$ (388,866)	\$ (132,000)	\$ (520,866)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	218,723	-	218,723	195,294	-	195,294
Changes in assets and liabilities:						
Accounts receivable	7,356	-	7,356	(2,112)	-	(2,112)
Inventory	23,890	-	23,890	(20,735)	-	(20,735)
Prepaid expenses	(3,862)	-	(3,862)	(12,970)	-	(12,970)
Accounts payable and accrued liabilities	56,482	(54,860)	1,622	(98,232)	(25,000)	(123,232)
Unearned revenues	90,900	-	90,900	371,065	-	371,065
Accrued leave	(59,968)	-	(59,968)	7,513	-	7,513
Total adjustments	<u>333,521</u>	<u>(54,860)</u>	<u>278,661</u>	<u>439,823</u>	<u>(25,000)</u>	<u>414,823</u>
Net cash provided by (used in) operating activities	<u>\$ 389,920</u>	<u>\$ (54,870)</u>	<u>\$ 335,050</u>	<u>\$ 50,957</u>	<u>\$ (157,000)</u>	<u>\$ (106,043)</u>
Interest capitalized in construction in progress	\$ -	\$ -	\$ -	\$ 23,267	\$ -	\$ 23,267

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 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 Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's *Comprehensive Annual Financial Report* (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Basis of Accounting

The basic financial statements of the Commission are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows. The Commission classifies its revenue and expenses as operating and non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of examination and license fees. Non-operating revenues and expenses include activities that have characteristics of non-exchange transactions and consist primarily of investing type activities.

Cash and Cash Equivalents

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

Investments

Investments consist of money market funds and certificates of deposit. The certificates of deposit are recorded at fair market value, which is cost plus accrued interest to date. The Commission is a component unit of the State of North Carolina.

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

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.

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.

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

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

Accrued Leave

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

Net Position

The Commission's net position is classified as follows:

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

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

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

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, resulting in adjustments in future periods.

NOTE 2 - DEPOSITS AND INVESTMENTS

Cash and Certificates of Deposit

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

The Commission is Subject to the Following Risks:

Custodial credit risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2014, the Commission's Operating Fund deposits had a carrying amount of \$7,945,513 and a bank balance of \$7,903,603. Of the bank balance, \$4,480,295 was covered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NUCA), and \$3,423,257 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, 2014, the Commission's Recovery Fund deposits had a carrying amount of \$465,946 and a bank balance of \$465,946. Of the bank balance, \$465,946 was covered by the FDIC and \$0 was uninsured and uncollateralized.

NORTH CAROLINA REAL ESTATE COMMISSION
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

The following table presents the fair value of investments by type and investments subject to interest rate and credit risk at June 30, 2014, for the Commission's investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Properties of Debt Securities</u>	
		<u>Weighted Average Maturities</u>	<u>Ratings</u>
Other securities:			
Certificates of deposit	<u>\$ 4,092,066</u>	6.9 months	N/A

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

A reconciliation of deposits and investments for the Commission to the basic financial statements at June 30, 2014, is as follows:

Carrying amount of deposits with private financial institutions	\$ 815,335
Money market mutual funds	3,504,058
Investments in certificates of deposit	4,092,066
Total deposits and investments	<u>\$ 8,411,459</u>
Current:	
Cash and cash equivalents	\$ 4,762,490
Short-term investments	3,448,969
Noncurrent:	
Investments	200,000
Total deposits and investments	<u>\$ 8,411,459</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	<u>Cost</u>	<u>Additions</u>	<u>Retirements</u>	<u>Cost</u>	<u>Accumulated</u>	<u>Net</u>
	<u>7/1/2013</u>			<u>6/30/2014</u>	<u>Depreciated</u>	<u>Amount</u>
Building	\$ 4,312,250	\$ -	\$ -	\$ 4,312,250	\$ 428,938	\$ 3,883,312
Furniture/ Equipment	1,391,524	87,799	-	1,479,323	1,026,889	452,434
Leasehold Improvements	106,202	30,158	-	136,360	48,469	87,891
Totals	<u>\$ 5,809,976</u>	<u>\$ 117,957</u>	<u>\$ -</u>	<u>\$ 5,927,933</u>	<u>\$ 1,504,296</u>	<u>\$ 4,423,637</u>

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 3 - CAPITAL ASSETS (Continued)

	Cost 7/1/2012	Additions	Retirements	Cost 6/30/2013	Accumulated Depreciated	Net Amount
Building	\$ 1,872,527	\$ 2,439,723	\$ -	\$ 4,312,250	\$ 336,082	\$ 3,976,168
Furniture/ Equipment	1,342,147	113,181	63,804	1,391,524	908,173	483,351
Construction in Progress	2,137,374	-	2,137,374	-	-	-
Leasehold Improvements	326,957	-	220,755	106,202	41,318	64,884
Totals	\$ 5,679,005	\$ 2,552,904	\$ 2,421,933	\$ 5,809,976	\$ 1,285,573	\$ 4,524,403

NOTE 4 - NON-CURRENT LIABILITIES

Line of Credit

In December 2010, the Commission obtained a construction line of credit up to \$3,310,000. Interest is payable monthly at 65% of the prime rate with a minimum of 2% and a maximum rate of 5%. The line of credit is secured by the Commission's property, fixtures and improvements. In September 2013, the line of credit was modified to change the interest rate calculation to equal the monthly Bank of North Carolina Prime Rate minus 1.14%. Unpaid principal and interest is due December 2017. The outstanding balances at June 30, 2014 and 2013 were \$1,123,789 and \$1,623,789, respectively.

As of June 30, 2014, principal and interest payments due on the line of credit are estimated as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 23,712	\$ 23,712
2016	-	23,712	23,712
2017	-	23,712	23,712
2018	1,123,789	11,856	1,135,645
Total	\$1,123,789	\$ 82,992	\$1,206,781

Changes in non-current liabilities are as follows:

	Balance 6/30/2013	Increases	Decreases	Balance 6/30/14	Current Portion
Accrued leave	\$ 308,425	\$ 308,815	\$ 368,783	\$ 248,457	\$ 18,580
Line of credit	1,623,789	-	500,000	1,123,789	-
	\$ 1,932,214	\$ 308,815	\$ 868,783	\$ 1,372,246	\$ 18,580

	Balance 6/30/2012	Increases	Decreases	Balance 6/30/2013	Current Portion
Accrued leave	\$ 300,912	\$ 355,494	\$ 347,981	\$ 308,425	\$ -
Line of credit	1,766,504	107,285	250,000	1,623,789	-
	\$ 2,067,416	\$ 462,779	\$ 597,981	\$ 1,932,214	\$ -

NORTH CAROLINA REAL ESTATE COMMISSION

Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS

Teachers' and State Employees' Retirement System of North Carolina

The state-wide Teachers' and State Employees' Retirement System of North Carolina (System) is a multiple-employer, cost-sharing, defined benefit pension plan administered by the North Carolina State Treasurer. The Commission's payroll for employees covered by the System for the years ended June 30, 2014 and 2013, was \$434,273 and \$469,486; the Commission's total payroll was \$3,093,623 and \$3,156,922, respectively.

After five years of creditable service (10 years if became a member on or after August 1, 2011), members of the System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (10 years if became a member on or after August 1, 2011), reach age 60 within 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.82% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (10 years if became a member on or after August 1, 2011).

Benefit and contribution provisions for the System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations.

The actuarially determined contribution requirement for the year ended June 30, 2014 was \$89,851, which consisted of \$63,795 from the Commission and \$26,056 from employees. These contributions represented 14.69% and 6% of covered payroll, respectively. The contribution requirement for the year ended June 30, 2013 was \$94,977, which consisted of \$66,808 from the Commission and \$28,169 from employees. These contributions represented 14.23% and 6% of covered payroll, respectively.

The System's financial information is included in the State of North Carolina 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 www.osc.state.nc.us and clicking on Financial Reports, or calling the State Controller's Financial Reporting Section at (919) 981-5454.

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 \$6,800 and \$7,800 for the years ended June 30, 2014 and 2013 respectively.

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 \$38,114 and \$44,753 for the years ended June 30, 2014 and 2013, respectively.

NORTH CAROLINA REAL ESTATE COMMISSION
Notes to Financial Statements

NOTE 5 - RETIREMENT PLANS (Continued)

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, 2014 was \$2,659,350; the Commission's total payroll was \$3,093,623. The Commission's payroll for employees covered by the Plan for the year ended June 30, 2013 was \$2,687,436; the Commission's total payroll was \$3,156,922.

The total contribution for the year ended June 30, 2014 was \$408,430, which consisted of \$159,437 (net of forfeitures) from the Commission and \$248,993 from employees. The total contribution for the year ended June 30, 2013 was \$421,494, which consisted of \$161,263 (net of forfeitures) from the Commission and \$260,231 from employees.

NOTE 6 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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 - BUILDING EXPANSION

In January 2011, the Commission began a building expansion and renovation of its current building. The construction contract was completed during the year ended June 30, 2013 with a total cost of \$2,439,723. The outstanding retainage of \$11,180 at June 30, 2013 was paid during the fiscal year ended June 30, 2014.

NOTE 9 - SUBSEQUENT EVENT

Management of the Commission evaluated subsequent events through October 9, 2014, 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 75 hours at a cost of \$10,500.