

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

**Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditor's Report**

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditor's Report

BOARD MEMBERS (2016)

Rex A. Bost, Chairman

J. David Stike, Vice Chairman

J. Allen Barnhill, Jr.

Lyle D. Gardner

Sherry Harris

Robert E. Lasater, Jr., P.E.

Cleve Paul

Gray E. Pendleton

Larry Watson

EXECUTIVE OFFICER

C. Frank Wiesner, Executive Director/Secretary-Treasurer

LEGAL COUNSEL

Anna Baird Choi
Nichols, Choi & Lee, PLLC

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

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NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the years ended December 31, 2016 and 2015. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

During 2016, the Board's net position for its Operating Fund increased by \$387,762, or 7.3%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2015, the Board's net position for its Operating Fund increased by \$156,500, or 3.1%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2016, the Board's net position for its Recovery Fund increased by \$90,920, or 21.9%, due primarily to the board awarding less Recovery Fund claims during 2016 than it did in the preceding year. During 2015, the Board's net position for its Recovery Fund decreased by \$79,817, or 16.1%, due primarily to the board awarding more Recovery Fund claims during 2015 than it did in the preceding year.

During 2016, the Board's operating revenues for its Operating Fund increased by \$61,484, or 2.1%, due primarily to an increase in renewals and consent order revenue. During 2015, the Board's operating revenues for its Operating Fund increased by \$22,518, or .8%, due primarily to an increase in new application fees and processing fees. During 2016, the Board's operating revenues for its Recovery Fund decreased by \$2,923, or .6%, due to a minor decrease in recovery fees collected. During 2015, the Board's operating revenues for its Recovery Fund increased by \$114,701, or 30.5%, due to an increase in recovery fees collected.

During 2016, the Board's non-operating revenues (less non-operating expenses) for its Operating Fund increased by \$24,449, or 19.3%, due to a decrease in interest expense on loans (as loan principal is amortizing). During 2015, the Board's non-operating revenues (less non-operating expenses) for its Operating Fund increased by \$7,835, or 5.8%, due to a decrease in interest expense on loans (as loan principal is amortizing). During 2016, the Board's non-operating revenues for its Recovery Fund decreased by \$53, or 9.2%, due to a decrease in interest earnings rates. During 2015, the Board's non-operating revenues for its Recovery Fund increased by \$1, or 0.2%, due to having essentially no change in earnings rates.

During 2016, the Board's operating expenses for its Operating Fund decreased by \$145,329, or 5.6%, due primarily to a decrease in salaries and related benefits, printing and postage expense, and legal fees. During 2015, the Board's operating expenses for its Operating Fund increased by \$110,434, or 4.4%, due primarily to an increase in salaries and related benefits, and computer support expenses. During 2016, the Board's operating expenses for its Recovery Fund decreased by \$173,713 or 30.4%, due primarily to the Board awarding less Recovery Fund claims during 2016 than it did in the preceding year. During 2015, the Board's operating expenses for its Recovery Fund increased by \$120,259 or 26.7%, due primarily to the Board awarding more Recovery Fund claims during 2015 than it did in the preceding year.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

This financial report consists of two sections: Management's Discussion and Analysis and the Financial Statements. The Board has no other supplementary information required by GASB 34. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

Basic Financial Statements

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board. The Statements of Net Position present the current and long-term portions of assets and liabilities separately. The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's assets changed as a result of its operations. The Statements of Cash Flows present information on how the Board's cash changed as a result of its financial activities.

Condensed Financial Information

The following presents condensed financial information on the operations of the Board:

	Current Year as of and for the year ended December 31, 2016 Operating Fund	Current Year as of and for the year ended December 31, 2016 Recovery Fund	Current Year as of and for the year ended December 31, 2015 Operating Fund	Current Year as of and for the year ended December 31, 2015 Recovery Fund
Current assets	\$ 3,777,115	\$ 502,231	\$ 3,615,627	\$ 410,051
Capital assets	6,384,588	4,174	6,537,250	5,423
Total assets	<u>\$ 10,161,703</u>	<u>\$ 506,405</u>	<u>\$ 10,152,877</u>	<u>\$ 415,474</u>
Current liabilities	\$ 1,777,980	\$ 28	\$ 1,862,008	\$ 17
Long-term liabilities	2,713,131		3,008,039	
Total liabilities	<u>\$ 4,491,111</u>	<u>\$ 28</u>	<u>\$ 4,870,047</u>	<u>\$ 17</u>
Net investment in capital assets	\$ 3,426,942	\$ 4,174	\$ 3,197,163	\$ 5,423
Restricted		502,203		410,034
Unrestricted	2,243,650		2,085,667	
Total net position	<u>\$ 5,670,592</u>	<u>\$ 506,377</u>	<u>\$ 5,282,830</u>	<u>\$ 415,457</u>
Operating revenues	\$ 2,950,524	\$ 488,111	\$ 2,889,040	\$ 491,034
Operating expenses	(2,460,782)	(397,712)	(2,606,111)	(571,425)
Operating income	489,742	90,399	282,929	(80,391)
Non-operating revenues	(101,980)	521	(126,429)	574
Change in net position	<u>\$ 387,762</u>	<u>\$ 90,920</u>	<u>\$ 156,500</u>	<u>\$ (79,817)</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Events Affecting Future Operations

A committee appointed by the North Carolina Legislature, The Joint Legislative Administrative Procedure Oversight Committee, has been performing a study concerning the deregulation, elimination and consolidation of occupational licensing boards in the State of North Carolina. The effect of any resulting legislation on the Board's operations in future years is not certain at this time.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina Licensing Board for General Contractors, PO Box 17187, Raleigh, NC 27619.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
North Carolina Licensing Board for General Contractors
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Licensing Board for General Contractors (the "Board"), an independent state agency which is a nonmajor enterprise fund of the primary government of the State of North Carolina, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which comprise the Board's financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on the 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Licensing Board for General Contractors as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 historic 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 supplementary information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance thereon.



Shelton L. Hawley, C.P.A., P.A.

Angier, North Carolina

April 24, 2017

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	2016		2015	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 1 and 2)	\$ 3,765,458	\$ 502,231	\$ 3,603,780	\$ 410,051
Prepaid expenses (Note 1)	11,657		11,847	
Total current assets	3,777,115	502,231	3,615,627	410,051
Capital assets (Note 1):				
Land and building	6,003,267		6,075,554	
Furniture and office equipment	381,321	4,174	461,696	5,423
Total capital assets - net of depreciation	6,384,588	4,174	6,537,250	5,423
TOTAL ASSETS	\$ 10,161,703	\$ 506,405	\$ 10,152,877	\$ 415,474
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities:				
Accounts payable - operations	\$ 46,558	\$ 11	\$ 38,968	\$
Due to other state agencies	1,437	17	780	17
Notes payable - current portion (Note 7)	291,725		384,313	
Accrued vacation - current portion (Notes 1 and 7)	18,360		17,422	
Unearned revenue (Note 3)	1,419,900		1,420,525	
Total current liabilities	1,777,980	28	1,862,008	17

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>		<u>2015</u>	
	<u>Proprietary - Enterprise Funds</u>		<u>Proprietary - Enterprise Funds</u>	
	<u>Operating Fund</u>	<u>Recovery Fund</u>	<u>Operating Fund</u>	<u>Recovery Fund</u>
Long-term debt:				
Notes payable - long-term portion (Note 7)	2,665,921		2,955,774	
Accrued vacation - long-term portion (Notes 1 and 7)	47,210		52,265	
Total long-term debt	<u>2,713,131</u>	<u>0</u>	<u>3,008,039</u>	<u>0</u>
TOTAL LIABILITIES	<u>4,491,111</u>	<u>28</u>	<u>4,870,047</u>	<u>17</u>
NET POSITION (NOTES 1 AND 4):				
Net investment in capital assets	3,426,942	4,174	3,197,163	5,423
Restricted net position - expendable		252,203		160,034
Restricted net position - nonexpendable		250,000		250,000
Unrestricted net position	<u>2,243,650</u>		<u>2,085,667</u>	
TOTAL NET POSITION	<u>5,670,592</u>	<u>506,377</u>	<u>5,282,830</u>	<u>415,457</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 10,161,703</u>	<u>\$ 506,405</u>	<u>\$ 10,152,877</u>	<u>\$ 415,474</u>

See notes to financial statements.

**NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Year Ended December 31,			
	2016		2015	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
OPERATING REVENUES:				
Renewals	\$ 2,348,075	\$	\$ 2,310,550	\$
Processing fees	271,485		297,380	
New application fees	139,450		139,350	
Applications	3,421		3,255	
Increase in limit fees	17,900		16,250	
Recovery fees (Note 1)		488,111		491,034
Sales of publications	6,359		9,340	
Administrative reimbursement from				
Recovery Fund	79,200		79,200	
Other income	84,634		33,715	
	<u>\$ 2,950,524</u>	<u>\$ 488,111</u>	<u>\$ 2,889,040</u>	<u>\$ 491,034</u>
OPERATING EXPENSES:				
Salaries (including accumulated leave) (Note 1)	\$ 1,030,054	\$	\$ 1,116,556	\$
Social security/medicare contributions	78,811		83,402	
Unemployment claim paid	570		457	
Retirement contributions (Note 9)	58,433		63,849	
Employee benefits	255,707		249,459	
Contracted temporary services	4,628		40,120	
Board members expenses	17,883	1,032	18,563	3,566
Staff travel expenses	65,781		57,821	
Hearing expenses		1,832		4,613
Telephone	20,587	205	21,030	205
Building operating costs	101,524		100,092	
Depreciation	159,051	1,249	155,019	1,499
Machine rental and maintenance (Note 6)	60,799	3,488	58,362	3,096
Office supplies and expenses	26,924	231	24,775	232
Printing and copying costs	42,023	87	59,885	282
Postage	72,100		81,050	

See notes to financial statements.

**NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Year Ended December 31,			
	2016		2015	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
OPERATING EXPENSES (CONTINUED):				
Computer and web site support expenses	160,409		160,543	
Insurance and bonding	14,504		13,242	
Dues and subscriptions	2,442		2,537	
Legal, auditing, accounting and other professional fees	274,302	5,337	288,318	7,232
Contribution to North Carolina Engineering Foundation	5,000		5,000	
Claims paid (Notes 1 and 12)		305,000		471,500
Administrative reimbursement to Operating Fund (Note 10)		79,200		79,200
Miscellaneous expenses	9,250	51	6,031	
Total operating expenses	<u>\$ 2,460,782</u>	<u>\$ 397,712</u>	<u>\$ 2,606,111</u>	<u>\$ 571,425</u>
Operating income (loss)	489,742	90,399	282,929	(80,391)
NON-OPERATING INCOME (EXPENSES):				
Gain (loss) on disposition of capital assets	68		(1,565)	
Interest income	67	521		574
Interest expense on loan(s)	<u>(102,115)</u>		<u>(124,864)</u>	
Total non-operating revenues (net)	<u>\$ (101,980)</u>	<u>\$ 521</u>	<u>\$ (126,429)</u>	<u>\$ 574</u>
Change in net position	\$ 387,762	\$ 90,920	\$ 156,500	\$ (79,817)
Net position - beginning of year	<u>5,282,830</u>	<u>415,457</u>	<u>5,126,330</u>	<u>495,274</u>
Net position - end of year	<u><u>\$ 5,670,592</u></u>	<u><u>\$ 506,377</u></u>	<u><u>\$ 5,282,830</u></u>	<u><u>\$ 415,457</u></u>

See notes to financial statements.

**NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Year Ended December 31,			
	2016		2015	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Cash flows from operating activities:				
Cash received from fees	\$ 2,779,706	\$ 488,111	\$ 2,738,860	\$ 491,034
Cash received from other operating revenues	170,193		122,255	
Cash payments to employees for services (including benefits)	(1,427,692)		(1,523,933)	
Cash payments for operating expenses	<u>(869,719)</u>	<u>(396,452)</u>	<u>(911,591)</u>	<u>(570,052)</u>
Net cash provided (used) by operating activities	\$ 652,488	\$ 91,659	\$ 425,591	\$ (79,018)
Cash flows from capital and related financing activities:				
Proceeds from disposition of capital assets	\$ 73		\$	\$
Acquisition of capital assets	(6,394)		(41,592)	
Principal payments on loans	(382,441)		(365,901)	
Interest payments on loans	<u>(102,115)</u>		<u>(124,864)</u>	
Net cash provided (used) in capital and related financing activities	\$ <u>(490,877)</u>	\$ 0	\$ <u>(532,357)</u>	\$ 0
Cash flows from investing activities:				
Interest earnings	\$ 67	\$ 521	\$	\$ 574
Net cash provided (used) by investing activities	\$ 67	\$ 521	\$ 0	\$ 574
Net increase (decrease) in cash	\$ <u>161,678</u>	\$ <u>92,180</u>	\$ <u>(106,766)</u>	\$ <u>(78,444)</u>
Cash - beginning of year	<u>3,603,780</u>	<u>410,051</u>	<u>3,710,546</u>	<u>488,495</u>
Cash - end of year	\$ <u><u>3,765,458</u></u>	\$ <u><u>502,231</u></u>	\$ <u><u>3,603,780</u></u>	\$ <u><u>410,051</u></u>

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Year Ended December 31,			
	2016		2015	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 489,742	\$ 90,399	\$ 282,929	\$ (80,391)
Adjustments to reconcile operating income To net cash provided by operating activities				
Depreciation	\$ 159,051	\$ 1,249	\$ 155,019	\$ 1,499
Changes in assets and liabilities:				
Prepaid expenses	190		17,088	
Accounts payable	8,247	11	8,690	(126)
Unearned revenue	(625)		(27,925)	
Other accrued liabilities	(4,117)		(10,210)	
Total adjustments	\$ 162,746	\$ 1,260	\$ 142,662	\$ 1,373
Net cash provided (used) by operating activities	\$ 652,488	\$ 91,659	\$ 425,591	\$ (79,018)
Supplemental disclosure(s) of noncash investing, capital, and financing activities:				
Capital asset write-offs	\$ (5)	\$ 0	\$ (1,565)	\$ 0
Supplemental disclosure(s) of cash flow information:				
Interest paid on notes	\$ 102,115	\$ 0	\$ 124,864	\$ 0

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1 - Nature of Activities and Significant Accounting Policies

Description of Organization

The North Carolina Licensing Board for General Contractors (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 87 of the North Carolina General Statutes. The Board is composed of nine members who are appointed by the Governor of the State of North Carolina. It 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).

The Board is established to maintain minimum standards for services provided by general contractors.

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

On March 10, 1925, upon the creation of the Board pursuant to Article I, Chapter 87 of the General Statutes of the State of North Carolina, the Board began operations through its Operating Fund. The Board's Operating Fund has the right to retain as a reserve at least 10% of the total expense it incurs for each year's operation to meet any emergency that may arise. Any surplus may be paid over to the Greater University of North Carolina for the use of the School of Engineering through the North Carolina Engineering Foundation. The revenues and expenses for the Operating Fund are shown as a proprietary (enterprise) fund.

On October 1, 1991, the Board established the Homeowners Recovery Fund (the "Recovery Fund"), as mandated by Section 87-15 of the General Statutes of the State of North Carolina. The North Carolina Licensing Board for General Contractors is responsible for the administration and maintenance of the Recovery Fund pursuant to the provisions of G.S. 87-15. The Recovery Fund reimburses the Board's Operating Fund for administrative costs on a monthly basis. The purpose of the fund is to reimburse homeowners who have suffered a reimbursable loss under the statute in constructing or altering a single-family residential dwelling unit. Accordingly, it is customary for the Board to have a number of such claims pending. The Board may reject or allow part or all of a claim based on the amount of money in the Recovery Fund. The Recovery Fund is required by statute to maintain a minimum balance of \$250,000. The revenues and expenses for the Recovery Fund are shown as a proprietary (enterprise) fund. The Homeowners Recovery Fund is a restricted fund with expendable and nonexpendable components.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

All activities of the Board are accounted for within two proprietary (enterprise) funds as described in the foregoing section above. 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

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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

Basis of Accounting and Revenue and Expense Recognition

In accordance with *Statement of Governmental Accounting Standards 34*, the Board herewith presents Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The Statements of Revenues, Expenses, and Changes in Net Position demonstrate the degree to which the direct expenses of the Board are offset by examination and license fees.

The financial statements report all activities of the North Carolina Licensing Board for General Contractors using the economic resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable, regardless of the timing of cash flows.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities; and are classified as non-operating in the financial statements.

Revenue Recognition - Recovery Fund - Pursuant to Section 87-15 of the General Statutes of North Carolina, revenue of the Homeowners Recovery Fund is derived from fees collected by city and county inspectors for the issuance of permits for the construction or alteration of certain single-family residential dwelling units. Revenues earned but uncollected at year end cannot be determined or reasonably estimated, and accordingly, revenues of the Homeowners Recovery Fund are recorded when collected.

Cash and Cash Equivalents

This classification includes undeposited receipts, petty cash, checking accounts and time deposits (excluding certain certificates of deposit, if any) held by the Board.

Investments

The Board is authorized to invest idle funds in accordance with North Carolina General Statutes. This classification consists of certain certificates of deposits held by the Board for investment. Investments generally are reported at fair market value. Certificates of deposit, if any, are reported at cost (which is the same as fair value) if purchased in the primary certificate of deposit market, and at fair value if purchased in the secondary certificate of deposit market (as determined by quoted market prices). Money market mutual funds, if any, are carried at fair market value. The net increase (decrease) in the fair value of investments is recognized as a component of investment income. The Board held no investments at December 31, 2016 and December 31, 2015.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The carrying amounts of the Board's financial instruments approximate their fair value.

Prepaid Expenses

This classification includes prepaid commercial insurance.

Compensated Absences (Vacation and Sick Leave)

Until May 1, 2015, Board policy (former policy) allowed for all eligible employees to accumulate up to thirty days earned vacation and such leave was fully vested when earned; and at the end of each calendar year, accrued vacation leave in excess of the limits were transferred and added to sick leave balances. Further, until May 1, 2015 the Board's sick leave policy provided for an unlimited accumulation of earned sick leave, however, the sick leave was not fully vested when earned, but was only payable when taken, or on retirement at a specified age. This former policy is still in place for employees hired prior to May 1, 2015. On May 1, 2015, the Board adopted a (new policy) for vacation and sick leave (referred to as PTO, or paid time off) for employees hired on or after that date, wherein an employee can accumulate 10 to 16 hours per month with a maximum accumulation of 120 to 192 hours per year (dependent on years of service), such leave being fully forfeitable if not fully used at June 30th of each year. On July 1, 2016, the board amended the foregoing policy wherein, as of July 1, 2016, an employee can accumulate 10 to 16 hours per month with a maximum accumulation of 120 to 192 hours per year (dependent on years of service), such leave being cumulative up to a maximum of 240 hours at the end of any year, with any leave balance in excess of 240 hours being forfeitable if not fully used at June 30th of each year (except that there is a provision for exception to the maximum carryover hours if written pre-approval is obtained from the appropriate authoritative management official).

Accumulated earned vacation payable and vested at December 31, 2016 and 2015, consisted of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current portion	\$ 18,360	\$ 17,422
Long-term portion	<u>47,210</u>	<u>52,265</u>
Total	<u>\$ 65,570</u>	<u>\$ 69,687</u>

Since the Board has no obligation for accumulated sick leave until it is actually taken, or until retirement (for those employees hired before May 1, 2015), no accrual for sick leave has been made. Further, since the Board has no obligation for accumulated paid time off (PTO) until it is actually taken (for those employees hired on or after May 1, 2015), no accrual for paid time off (PTO) has been made. The Board has a contingent liability for sick leave in the amount of \$358,698 at December 31, 2016 and for paid time off (PTO) in the amount of \$6,458 at December 31, 2016; and a contingent liability for sick leave in the amount of \$408,254 at December 31, 2015 and for paid time of (PTO) in the amount of \$5,061 at December 31, 2015.

Amounts paid to employees (who retired during 2016 and 2015) for accumulated sick leave under the former vacation and sick leave policy amounted to \$27,574 during 2016 and \$229,805 during 2015. These amounts are included in the operating expense categorization (of the Operating Fund) entitled "Salaries (including accumulated leave)".

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Capital Assets

Property and equipment items are stated at cost and are being depreciated over their useful lives on a straight-line basis. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction. The Board capitalizes assets that have a value or cost of \$800 or greater at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets, generally estimated as follows: buildings, 50 years and office furniture and equipment, 5 to 10 years. Summaries follow:

	Cost 12-31-15	Acquisitions	Disposals	Cost 12-31-16	Accumulated Depreciation	Net Amount
Land	\$ 1,078,039	\$	\$	\$ 1,078,039	\$	\$ 1,078,039
Building	5,376,861			5,376,861	451,633	4,925,228
Furniture/Equipment	1,145,851	6,394	45,774	1,106,471	720,976	385,495
	<u>\$ 7,600,751</u>	<u>\$ 6,394</u>	<u>\$ 45,774</u>	<u>\$ 7,561,371</u>	<u>\$ 1,172,609</u>	<u>\$ 6,388,762</u>

	Cost 12-31-14	Acquisitions	Disposals	Cost 12-31-15	Accumulated Depreciation	Net Amount
Land	\$ 1,078,039	\$	\$	\$ 1,078,039	\$	\$ 1,078,039
Building	5,376,861			5,376,861	379,346	4,997,515
Furniture/Equipment	1,189,329	41,592	85,070	1,145,851	678,732	467,119
	<u>\$ 7,644,229</u>	<u>\$ 41,592</u>	<u>\$ 85,070</u>	<u>\$ 7,600,751</u>	<u>\$ 1,058,078</u>	<u>\$ 6,542,673</u>

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in earnings for the period. Depreciation expense was \$160,300 for the year ended December 31, 2016 and \$156,518 for the fiscal year ended December 31, 2015.

Income Taxes

The Board is an independent state agency which is a nonmajor enterprise fund of the primary government of the State of North Carolina, and it is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
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YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 2 - Deposits

Deposits

All of the Board's deposits which are uninsured are uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)] by the financial institution holding said deposits. For deposits, custodial credit risk is the risk that in the event of the failure of the depository (or counterparty), the Board will not be able to recover the value of its deposits that are in the possession of the outside party. The Board does not have formal policies regarding custodial credit risk for deposits.

At December 31, 2016, the Board's Operating Fund deposits had a carrying amount of \$3,765,458 and a bank balance of \$3,630,006. Of the bank balance, \$999,232 was covered by federal depository insurance (Federal Deposit Insurance Corporation), and \$2,630,774 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)]. At December 31, 2016, the Board's Recovery Fund deposits had a carrying amount of \$502,231 and a bank balance of \$473,288. Of the bank balance, \$473,258 was covered by federal depository insurance (Federal Deposit Insurance Corporation), and \$30 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)].

At December 31, 2015, the Board's Operating Fund deposits had a carrying amount of \$3,603,780 and a bank balance of \$3,480,042. Of the bank balance, \$379,819 was covered by federal depository insurance (Federal Deposit Insurance Corporation), and \$3,100,223 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)]. At December 31, 2015, the Board's Recovery Fund deposits had a carrying amount of \$410,051 and a bank balance of \$417,068. Of the bank balance, \$379,755 was covered by federal depository insurance (Federal Deposit Insurance Corporation), and \$37,313 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)].

Note 3 - Unearned Revenue

The Board's fees are assessed and collected on a fiscal year basis, which corresponds with the Board's accounting period. Licenses are renewed for a period of one fiscal year. License renewal fees received in the latter part of the fiscal year are deferred and recognized as revenue over the one year period to which they relate.

Note 4 - Net Position

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any loan proceeds that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted net position - This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The Homeowners Recovery Fund is a restricted fund with expendable and nonexpendable components.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of *restricted or net investment in capital assets*. The Board has designated a reserve for legal expenses in the amount of \$600,000 for the years ended December 31, 2016 and 2015 for its unrestricted net position, and a reserve for accrued compensated leave due employees on termination in the amount of \$421,000 for the year ended December 31, 2016 for its unrestricted net position.

Note 5 - Deferred Outflows/Inflows of Resources

Because the Board has no reportable deferred outflows and inflows of resources, pursuant to GASB 63 (and related statements), there is no reporting requirement to include zero presentation amounts on the Statements of Net Position, and accordingly, none are herewith presented.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
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Note 6 - Operating Leases

The Board leased office equipment under operating leases during the years audited herein. Total rent expense charged to operations under lease agreements was \$30,199 in 2016 and \$31,478 in 2015. Rental commitments under noncancellable operating leases at December 31, 2016 are as follows:

Year Ending December 31,	
2017	\$ 30,038
2018	30,038
2019	28,587
2020	7,078
	<u>\$ 95,741</u>

Note 7 - Notes Payable and Changes in Long-Term Liabilities

Notes Payable

The Board has entered into a loan agreement with a local financial institution and a vendor. Following is a summary of those notes payable.

	<u>2016</u>	<u>2015</u>
Note payable to financial institution, collateralized by land and building, due in monthly installments of \$31,254, at 2.95% interest, through December 17, 2025. The original issuance amount for this loan was \$4,500,000. The loan was refinanced with a lower interest rate and a lower payment amount effective January 2016.	\$ 2,957,646	\$ 3,239,083
Note payable to software development company, for proprietary database software, due in monthly installments of \$8,417, at zero percent interest, through December 23, 2016 (see Note 8 below). The original issuance amount for this loan was \$303,012.		101,004
Total	<u>\$ 2,957,646</u>	<u>\$ 3,340,087</u>

The estimated maturities of debt for each of the years subsequent to December 31, 2016, are as follows:

Years Ended December 31,	Principal	Interest
2017	\$ 291,725	\$ 83,327
2018	300,448	74,604
2019	309,432	65,620
2020	318,685	56,367
2021	328,214	46,838
2022 and beyond	1,409,142	86,230
Total	<u>\$ 2,957,646</u>	<u>\$ 412,986</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 7 - Notes Payable and Changes in Long-Term Liabilities (Continued)

Changes in Long-Term Liabilities

A summary of changes in long-term liabilities (notes payable and accrued compensated absences) for the years ended December 31, 2016 and December 31, 2015 is presented as follows:

	Balance 12-31-15	Additions	Reductions	Balance 12-31-16	Long-Term Portion	Current Portion
Notes Payable	\$ 3,340,087	\$	\$ 382,441	\$ 2,957,646	\$ 2,665,921	\$ 291,725
Compensated Absences	69,687	65,115	69,232	65,570	47,210	18,360
	<u>\$ 3,409,774</u>	<u>\$ 65,115</u>	<u>\$ 451,673</u>	<u>\$ 3,023,216</u>	<u>\$ 2,713,131</u>	<u>\$ 310,085</u>

	Balance 12-31-14	Additions	Reductions	Balance 12-31-15	Long-Term Portion	Current Portion
Notes Payable	\$ 3,705,988	\$	\$ 365,901	\$ 3,340,087	\$ 2,955,774	\$ 384,313
Compensated Absences	79,897	73,665	83,875	69,687	52,265	17,422
	<u>\$ 3,785,885</u>	<u>\$ 73,665</u>	<u>\$ 449,776</u>	<u>\$ 3,409,774</u>	<u>\$ 3,008,039</u>	<u>\$ 401,735</u>

Note 8 - Related Party Information

During 2014, the Board purchased proprietary database software from a software development company, which is owned by a related party of a former key employee of the Board. The software development company had sole legal and beneficial ownership of the proprietary software. The software development company also performed computer support services for the Board. The Board issued a note payable to the software development company in the amount of \$303,012 (See Note 7 above) for the purchase of the proprietary software on January 23, 2014. The remaining balance on the note payable is paid out as of December 31, 2016 and was \$101,004 at December 31, 2015. Additional amounts paid to the software development company for computer support services was \$30 in 2016 and \$18,013 in 2015.

Note 9 - Pension and Retirement Plans and Postemployment Benefits

On June 1, 1983, the General Assembly of North Carolina enacted legislation which excludes certain licensing boards (including the North Carolina Licensing Board for General Contractors) from membership in the Teachers' and State Employees' Retirement System (TSERS) of North Carolina. Accordingly, the Board has no employees eligible to participate in the Teachers' and State Employees' Retirement System of North Carolina (TSERS). Additionally, the Board has no previously employed persons eligible to participate in TSERS who qualify for postemployment benefits. The Board has established a separate retirement plan for its employees. The Board assumes no liability for retirement benefits provided other than its required contributions. The Board has no postemployment benefits other than this defined contribution retirement plan and those benefits discussed in the foregoing Compensated Absences footnote disclosure section.

IRC 414(h) Plan

Effective January 1, 2001, the Board established a salary reduction, defined contribution retirement savings plan in accordance with Internal Revenue Code Section 414(h). During 2016, nineteen employees were covered under the plan, consisting of three management employees and sixteen staff employees. Only the Board and Board employees contribute to the plan, and only the Board has the authority to authorize and amend the plan. There are no forfeitures inuring to other employees under this type plan. Eligible employees must contribute at least 6% of their qualifying compensation each year and the Board matches those contributions 100%. Employee's contributions are immediately 100% vested; the Board's contributions are 100% vested after 5 years of credited service.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
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Note 9 - Pension and Retirement Plans and Postemployment Benefits (Continued)

The Board's covered payroll for 2016 was \$973,883; the Board's total payroll was \$1,030,054. The Board's covered payroll for 2015 was \$1,064,150; the Board's total payroll was \$1,116,556. The Board's covered payroll for 2014 was \$980,067; the Board's total payroll was \$1,038,354. The total contribution for the year ended December 31, 2016 was \$129,928, which consisted of \$58,433 from the Board and \$71,495 from employees. The total contribution for the year ended December 31, 2015 was \$166,363, which consisted of \$63,849 from the Board and \$102,514 from employees. The total contribution for the year ended December 31, 2014 was \$155,069, which consisted of \$58,804 from the Board and \$96,265 from employees.

Discretionary Defined Contribution Plan

During the year ended December 31, 1992, the Board adopted a discretionary defined contribution plan on behalf of employees of the Board who were not eligible to participate in the Teachers' and State Employees' Retirement System. The Board terminated this plan on January 1, 2001 and rolled over its employees' account balances into the IRC 414(h) plan discussed in the previous section.

Note 10 - Administrative Reimbursement from Recovery Fund to Operating Fund

The Board provides office space and administrative and clerical services for the Recovery Fund's operation. A monthly administrative fee was reimbursed to the Board's Operating Fund for the fiscal years ended December 31, 2016 and 2015. The annual administrative fee was \$79,200 for 2016 and \$79,200 for 2015. Additionally, direct operating expenses of the Recovery Fund such as professional fees, and specifically identifiable office expenses are paid from the Recovery Fund's separately maintained special account.

Note 11 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled by participation in state-administered risk programs and self retention of certain risks. Additionally, the Board protects itself from exposure to potential loss through the purchase of commercial insurance coverage.

Note 12 - Contingencies

Disciplinary Hearings

The Board is involved in a number of disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

Recovery Fund Claims

The Recovery Fund of the North Carolina Licensing Board for General Contractors is presented with a number of claims throughout each year requesting reimbursement for reimbursable losses as defined under North Carolina General Statute 87-15. There were no awarded but unpaid claims payable at December 31, 2016 and 2015. There were \$1,790,221 of pending but unawarded claims at December 31, 2016 and there were \$1,907,014 of pending but unawarded claims at December 31, 2015. Further, there were incurred but unreported losses at each year end which are statistically inestimable. The Board may reject or allow part or all of a claim based on the amount of money in the Recovery Fund. Accordingly, in the opinion of management of the Board, the resulting liabilities of such claims do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
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Note 13 - Subsequent Events

Subsequent events have been evaluated through April 24, 2017, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in financial statements would be required.

Note 14- North Carolina Legislative Statutory Disclosure Requirement Concerning Audit Fees

This audit required 140 audit hours at a cost of \$13,595.