

NORTH CAROLINA APPRAISAL BOARD

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NORTH CAROLINA APPRAISAL BOARD

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NORTH CAROLINA APPRAISAL BOARD

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2017

The following is a discussion and analysis of the North Carolina Appraisal Board's (the "Board") financial performance for the fiscal year ended June 30, 2017. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous years are presented in the analysis.

Financial Highlights

The operating revenues of the Board decreased \$27,844 or approximately 2%. The main reasons for the decrease was that there was no revenue from USPAP books, which are purchased every other year. We also received very little in civil penalties, but that has very little impact on operations, as 100% of the revenue is remitted to the State. The renewals and applications, which are the main sources of the Board's revenues, remained fairly stable in fiscal 2016-2017, although there was a dip in the number of temporary practice permits. Management will watch to see if this trend continues over the next year or so. The increase in continuing education (CE) roster fees was not unexpected as this was the year that the majority of licensees' 28-hour CE requirement is due.

Non-operating expenses, net of non-operating revenue, were \$157,648 for the current year, compared to net non-operating revenue of \$2,294 in the prior year. Non-operating expenses in the current year included the write-off of costs capitalized under the Accela Services Agreement totaling \$160,965 after management, in consultation with the Board, determined that the Accela software could not meet the needs of the Board's operations. Non-operating revenue consists of interest income in the current and prior year of \$11,522 and \$2,892, respectively. Management, in consultation with the Finance Committee, made the decision in the prior year to invest a significant portion of the Board's reserve funds into a CD ladder in which the certificates of deposit mature every six months on a rotating basis so that cash is consistently available if necessary, but yields a better return than the current account. The current account diversified the funds, but had virtually no interest.

The operating expenses of the Board decreased by \$70,869 or approximately 5%. The decrease in expenses was mainly due to the fact that this was not a year in which the Board incurred the cost of purchasing the USPAP books for licensees. The Board generally offers to purchase USPAP books in even years when a new edition comes out, for any licensee who pays the shipping cost. This will show up as an expense in the fiscal 2017-2018 year. Board expenses were down due to fewer attendees at the AARO conferences and a reduction in the total number of Board meetings. Staff expenses were also down due to less travel for investigations.

Overview of the Basic Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of the following components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses, and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to Financial Statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

NORTH CAROLINA APPRAISAL BOARD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Basic Financial Statements

The basic financial statements report information about the Board using accounting methods similar to those used by companies in the private sector. These statements offer short and long-term financial information about the activities of the Board.

The Statements of Net Position present the current and noncurrent portions of assets and liabilities separately.

The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's net position changed as a result of the year's operations.

The Statements of Cash Flows present information on how the Board's cash changed as a result of the year's activity.

The following presents condensed financial information for Board operations as of and for the year ended June 30:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--------------------------------------|----------------------------|---------------------|---------------------|
| Current assets | \$ 2,066,085 | \$ 2,108,401 | \$ 2,656,657 |
| Non-current assets | 541,531 | 549,602 | 39,446 |
| Capital assets - net of depreciation | 1,956,571 | 2,197,691 | 2,265,728 |
| Total assets | <u>4,564,187</u> | <u>4,855,694</u> | <u>4,961,831</u> |
| Current liabilities | 962,116 | 1,040,088 | 1,049,548 |
| Non-current liabilities | 52,363 | 49,763 | 47,222 |
| Total liabilities | <u>1,014,479</u> | <u>1,089,851</u> | <u>1,096,770</u> |
| Investment in capital assets | 1,956,571 | 2,197,691 | 2,265,728 |
| Unrestricted | 1,593,137 | 1,568,152 | 1,599,333 |
| Total net position | <u>\$ 3,549,708</u> | <u>\$ 3,765,843</u> | <u>\$ 3,865,061</u> |
| Operating revenues | \$ 1,252,272 | \$ 1,280,116 | \$ 1,361,180 |
| Operating expenses | 1,310,759 | 1,381,628 | 1,297,352 |
| Operating income (loss) | (58,487) | (101,512) | 63,828 |
| Non-operating revenues (expenses) | (157,648) | 2,294 | 2,660 |
| Changes in net position | <u>\$ (216,135)</u> | <u>\$ (99,218)</u> | <u>\$ 66,488</u> |

Events Affecting Future Operations

Market Demand - The Appraiser Qualifications Board ("AQB") implemented changes in the education requirements to become a real estate appraiser beginning January 1, 2015. The AQB is currently evaluating ways and considering comments as to how candidates who have a college education may enter the profession without the additional time and expense necessary to complete the education and experience in the current criteria. There was an increase in Trainee applications in fiscal 2016-2017 of \$11,000 or approximately 80%.

NORTH CAROLINA APPRAISAL BOARD

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2017

The licensed residential credential was offered again beginning in 2015, which allows someone with an associate's degree to progress beyond the trainee level. This has had little impact, as management projected, since appraisal assignments have become limited for appraisers that are not certified. The AQB is considering options where a Licensed Residential with additional experience would be able to upgrade to Certified Residential without having to obtain a 4-year degree. If this change in the criteria takes place, the Licensed Residential category could be utilized more in the future; however, management does not see this change taking place in time to impact the 2017-2018 fiscal year.

Application and Renewal Fees - Renewal fees have remained unchanged on appraiser licenses since 1994, but the cost of operations has steadily increased over time. Although certified appraisers are continuing to renew at a high rate, the number of new applications are not quite keeping up with the number retiring or leaving the profession each year and this is slowly impacting the amount of revenue from appraiser applications and renewal fees. The additional revenue, received from the registration of Appraisal Management Companies, has delayed the need to consider a fee increase, but those new applications are beginning to decline and it remains to be seen how many Appraisal Management Companies will continue to operate in the state. Management needs to continue to closely monitor the change in revenue/expenses and consider what changes may be necessary if the trend continues of having fewer appraisers and a smaller number of complaints. The Board has created a Long Range Planning committee to consider necessary changes to the makeup of staff and other operating costs.

Technology Upgrades - The Board decided to end the contractual agreement with Accela to provide a new database solution when it became clear that the current contract was not meeting the needs of the Board's operations. The options were to accept what had been done to date; pay significantly more to try to customize to our needs; or, to negotiate an end to the contract. The amounts reflected in the accompanying financial statements reflect that no funds will be returned to the Board by Accela. Although this may not be the case, there is no way to currently project the likely outcome of the negotiation. The staff has begun discussions with the State's Department of Information Technology about an alternative solution, but this is currently in the fact-finding stage. It appears the biggest technology expenses in the near future will be to replace the older of our two servers in the coming year.

Cash Reserves - The Board continues to have designated unrestricted net assets necessary to cover operations, potential legal matters and any possible repairs to fixed assets. Management feels that most of the reserves are adequate at this time, but the Board may want to consider setting aside additional technology funds after any refunds are potentially realized from the Accela contract. This recommendation is to allow for future expenses such as a different database solution, completion of the redesign of the website, replacement of the server, and future technology that may be required to conduct virtual meetings and/or conferences. The Board has also engaged outside counsel to advise on rulemaking and potential anti-trust matters. This expense will come from the reserves designated for litigation.

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 and expends. If you have any questions about this report or need additional information, contact: North Carolina Appraisal Board, 5830 Six Forks Road, Raleigh, North Carolina 27609.

Independent Auditor's Report

Members of the Board
North Carolina Appraisal Board
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Appraisal Board (the "Board"), an enterprise fund of the state of North Carolina, which comprise the statements of net position as of June 30, 2017 and 2016, 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 Board'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 basic 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 audits to obtain reasonable assurance about whether the basic 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 basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the basic 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 Board'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 Appraisal Board as of June 30, 2017 and 2016, and its 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, the financial statements are presented only for the North Carolina Appraisal Board and do not purport to and do not present fairly the financial position of the State of North Carolina as of June 30, 2017 and 2016, and 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 Matter

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
September 19, 2017

NORTH CAROLINA APPRAISAL BOARD
Statements of Net Position
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash | \$ 1,854,417 | \$ 1,845,409 |
| Investments | 208,738 | 200,000 |
| Accounts receivable | - | 32,074 |
| Prepaid subscription fees | - | 25,702 |
| Other current assets | 2,930 | 5,216 |
| Total current assets | <u>2,066,085</u> | <u>2,108,401</u> |
| Non-current assets: | | |
| Investments | <u>541,531</u> | <u>549,602</u> |
| Capital assets - net: | | |
| Land | 440,000 | 440,000 |
| Building | 1,503,672 | 1,577,438 |
| Furniture, equipment and software | 12,899 | 180,253 |
| Total capital assets - net | <u>1,956,571</u> | <u>2,197,691</u> |
| Total assets | <u>4,564,187</u> | <u>4,855,694</u> |
| LIABILITIES: | | |
| Current liabilities: | | |
| Accounts payable | 16,141 | 21,253 |
| Payroll liabilities | 2,670 | 8,849 |
| National Registry fees payable | 12,505 | 78,385 |
| Unearned revenues | 930,800 | 931,601 |
| Total current liabilities | <u>962,116</u> | <u>1,040,088</u> |
| Non-current liabilities: | | |
| Accrued vacation | <u>52,363</u> | <u>49,763</u> |
| Total non-current liabilities | <u>52,363</u> | <u>49,763</u> |
| Total liabilities | <u>1,014,479</u> | <u>1,089,851</u> |
| NET POSITION: | | |
| Invested in capital assets | 1,956,571 | 2,197,691 |
| Unrestricted | 1,593,137 | 1,568,152 |
| Total net position | <u>\$ 3,549,708</u> | <u>\$ 3,765,843</u> |

NORTH CAROLINA APPRAISAL BOARD
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Operating revenues: | | |
| Renewal fees | \$ 1,017,152 | \$ 1,022,201 |
| Application fees | 54,100 | 46,800 |
| National Registry fees | 62,140 | 61,920 |
| Licensee rosters | 400 | 425 |
| Reciprocity | 14,800 | 16,000 |
| Course approval | 9,050 | 8,100 |
| Temporary permit applications | 49,050 | 56,700 |
| USPAP | - | 16,460 |
| CE roster fees | 34,810 | 24,755 |
| Civil penalties received | 1,000 | 15,000 |
| Other | 9,770 | 11,755 |
| Total operating revenues | <u>1,252,272</u> | <u>1,280,116</u> |
| Operating expenses: | | |
| Personnel costs | 699,791 | 692,165 |
| Insurance | 105,693 | 103,950 |
| Staff expenses | 39,025 | 44,576 |
| Legal | 144,993 | 138,926 |
| Board member expenses | 51,327 | 61,311 |
| Professional fees | 8,000 | 7,100 |
| Building expenses | 49,668 | 55,243 |
| Office operations | 67,923 | 74,803 |
| Depreciation | 80,155 | 82,442 |
| Subscription fees | 57,776 | 34,260 |
| USPAP | - | 66,703 |
| Civil penalties remitted | 1,000 | 15,000 |
| Other | 5,408 | 5,149 |
| Total operating expenses | <u>1,310,759</u> | <u>1,381,628</u> |
| Operating loss | <u>(58,487)</u> | <u>(101,512)</u> |
| Non-operating revenues (expenses): | | |
| Interest income | 11,522 | 2,892 |
| Loss on write-off of Accela software | (160,965) | - |
| Unrealized loss | (8,205) | (598) |
| Total non-operating revenues (expenses) | <u>(157,648)</u> | <u>2,294</u> |
| Changes in net position | <u>(216,135)</u> | <u>(99,218)</u> |
| Net position - beginning of year | <u>3,765,843</u> | <u>3,865,061</u> |
| Net position - end of year | <u>\$ 3,549,708</u> | <u>\$ 3,765,843</u> |

NORTH CAROLINA APPRAISAL BOARD
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from fees | \$ 1,251,471 | \$ 1,279,301 |
| Cash payments to employees for services | (693,535) | (682,636) |
| Cash payments to suppliers for goods and services | (455,818) | (475,900) |
| Cash payments for other operating expenses | (95,760) | (111,036) |
| Net cash provided by operating activities | <u>6,358</u> | <u>9,729</u> |
| Cash flows from investing activities: | | |
| Purchase of investments | (108,872) | (750,200) |
| Sale of investments | 100,000 | - |
| Interest on investments | 11,522 | 2,892 |
| Net cash provided by (used in) investing activities | <u>2,650</u> | <u>(747,308)</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | - | (14,405) |
| Net cash used in capital and related financing activities | <u>-</u> | <u>(14,405)</u> |
| Increase (decrease) in cash | 9,008 | (751,984) |
| Cash - beginning of year | 1,845,409 | 2,597,393 |
| Cash - end of year | <u>\$ 1,854,417</u> | <u>\$ 1,845,409</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (58,487) | \$ (101,512) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 80,155 | 82,442 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 32,074 | (32,074) |
| Other current assets | 2,286 | 1,458 |
| Prepaid subscription fees | 25,702 | 66,334 |
| Accounts payable | (5,112) | 7,647 |
| Payroll liabilities | (6,179) | (23,280) |
| National Registry fees payable | (65,880) | 6,988 |
| Unearned revenues | (801) | (815) |
| Accrued vacation | 2,600 | 2,541 |
| Total adjustments | <u>64,845</u> | <u>111,241</u> |
| Net cash provided by operating activities | <u>\$ 6,358</u> | <u>\$ 9,729</u> |

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The North Carolina Appraisal Board (the "Board") is an independent State agency. It is an occupational licensing board authorized by Chapter 93E of the *North Carolina General Statutes*. The Board members are appointed by the Governor, the Speaker of the House, and the President Pro Tempore of the Senate.

The Board's function is to maintain minimum standards for services provided by appraisers and Appraisal Management Companies. The Board's operations are funded primarily through license renewal fees and license application fees.

Financial 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.

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

Basis of Presentation

The accompanying basic financial statements are presented in accordance with GAAP as prescribed by the Governmental Accounting Standards Board ("GASB").

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.

Basis of Accounting

The basic financial statements of the Board have been 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. Fees received for the various licenses are deemed earned when the license period begins.

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The Board classifies its revenues and expenses as operating or non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of license renewal fees. Operating expenses are all expense transactions 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 include activities that have characteristics of non-exchange transactions and consist primarily of investment activities and loss on disposal or write-off of capital assets.

Cash

This classification includes cash on deposit and money market accounts with financial institutions. For purposes of the Statements of Cash Flows, the Board considers all highly liquid investments with a maturity of three months or less when purchased to be cash.

Investments

Investments consist of certificates of deposit and are recorded at fair value. Certificates of deposit maturing within one year are shown as current.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Board capitalizes assets that have a cost of \$2,500 or greater at the date of acquisition and an expected useful life in excess of one year. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|-----------------------------------|--------------|
| Building and improvements | 5 - 39 years |
| Furniture, equipment and software | 3 - 7 years |

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 non-operating revenue or expense for the period.

Accrued Vacation Pay

The vacation policy of the Board provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. There is no liability for unpaid accumulated sick leave because the Board has no obligation to pay sick leave upon employee termination or retirement.

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenues

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

Net Position

The Board's net position is classified as follows:

Invested in Capital Assets - This represents the Board's total investment in capital assets, net of accumulated depreciation.

Unrestricted - This represents 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.

Designations of net position represent tentative management plans that are subject to change based on perceived operating conditions and situations.

Designated amounts as of June 30, 2017 were as follows:

| | |
|---------------------------|---------------------------|
| Annual leave | \$ 56,000 |
| Operating expenses | 600,000 |
| Replace fixed assets | 75,000 |
| Litigation | 347,502 |
| Technology | 115,876 |
| Total designated balances | <u><u>\$1,194,378</u></u> |

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 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

All funds of the Board are deposited in board-designated official depositories or brokerage firms and include cash and money market accounts and funds invested in an Insured Cash Sweep ("ICS") account. Investments consist of certificates of deposit ("CDs") invested in a CD Ladder managed by a financial institution.

The Board 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 Board will not be able to recover the value of its collateral securities that are in the possession of an outside party.

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The Board maintains an account through a financial institution's insured cash sweep program ("ICS"), which insures amounts up to \$75 million. At June 30, 2017, the bank balance in this account was \$1,221,476.

The Board's remaining accounts are insured, in the aggregate per depositor, by the Federal Deposit Insurance Corporation ("FDIC") and the National Credit Union Administration ("NCUA") up to \$250,000 per institution. At June 30, 2017, the Board's uninsured cash balances totaled \$210,344. Throughout the fiscal year, the Board's deposits exceeded the amounts insured by the FDIC and NCUA.

Interest Rate Risk: Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments. The Board manages its exposure to declines in fair values by monitoring the maturities in its investment portfolio.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board manages credit risk by diversifying its investment portfolio. Investments are currently limited to certificates of deposit.

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at June 30, 2017, for the Board's investments.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturities</u> | <u>Ratings</u> |
|-------------------------|-------------------|------------------------------------|----------------|
| Certificates of deposit | <u>\$ 750,269</u> | 22.5 Months | N/A |

Certificates of deposit reported as investments are also a component of the deposits with private financial institutions. A reconciliation of deposits and investments for the Board to the basic financial statements at June 30, is as follows:

| | | |
|---|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Carrying amount of deposits with private financial institutions | \$ 1,595,561 | \$ 1,589,125 |
| Money market mutual funds | 258,856 | 256,284 |
| Investments in certificates of deposit | <u>750,269</u> | <u>749,602</u> |
| Total deposits and investments | <u>\$2,604,686</u> | <u>\$ 2,595,011</u> |
| Current: | | |
| Cash | \$ 1,854,417 | \$ 1,845,409 |
| Short-term investments | 208,738 | 200,000 |
| Noncurrent: | | |
| Investments | <u>541,531</u> | <u>549,602</u> |
| Total deposit and investments | <u>\$ 2,604,686</u> | <u>\$ 2,595,011</u> |

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value, as defined under U.S. GAAP, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1: Observable inputs such as quoted prices in active markets; Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable; Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Board's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following tables set forth by level the fair value hierarchy of the Board's financial assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2017:

| | Total Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------|---------------------|-------------|-------------------|-------------|
| Certificates of deposit | <u>\$ 750,269</u> | <u>\$ -</u> | <u>\$ 750,269</u> | <u>\$ -</u> |

The following tables set forth by level the fair value hierarchy of the Board's financial assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2016:

| | Total Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------|---------------------|-------------|-------------------|-------------|
| Certificates of deposit | <u>\$ 749,602</u> | <u>\$ -</u> | <u>\$ 749,602</u> | <u>\$ -</u> |

NOTE 4 - CAPITAL ASSETS

Capital assets consist of the following:

| | Cost 6/30/2016 | Acquisitions | Disposals | Cost 6/30/2017 | Accumulated Depreciation | Net Amount |
|--------------------------------------|---------------------|--------------|-------------------|---------------------|-----------------------------|---------------------|
| Land | \$ 440,000 | \$ - | \$ - | \$ 440,000 | \$ - | \$ 440,000 |
| Building | 2,314,938 | - | - | 2,314,938 | 811,266 | 1,503,672 |
| Furniture/ equipment/ software | 404,898 | - | 160,965 | 243,933 | 231,034 | 12,899 |
| | <u>\$ 3,159,836</u> | <u>\$ -</u> | <u>\$ 160,965</u> | <u>\$ 2,998,871</u> | <u>\$ 1,042,300</u> | <u>\$ 1,956,571</u> |

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 4 - CAPITAL ASSETS (Continued)

| | Cost 6/30/2015 | Acquisitions | Disposals | Cost 6/30/2016 | Accumulated Depreciation | Net Amount |
|--------------------------------------|---------------------|------------------|------------------|---------------------|-----------------------------|---------------------|
| Land | \$ 440,000 | \$ - | \$ - | \$ 440,000 | \$ - | \$ 440,000 |
| Building | 2,314,938 | - | - | 2,314,938 | 737,500 | 1,577,438 |
| Furniture/ equipment/ software | 403,435 | 14,405 | 12,942 | 404,898 | 224,645 | 180,253 |
| | <u>\$ 3,158,373</u> | <u>\$ 14,405</u> | <u>\$ 12,942</u> | <u>\$ 3,159,836</u> | <u>\$ 962,145</u> | <u>\$ 2,197,691</u> |

NOTE 5 - RETIREMENT PLAN

The Board has a simplified employee pension (SEP) plan covering all eligible employees with no waiting period. For the years ended June 30, 2017 and 2016, the Board contributed 10%, or \$59,347 and \$58,575, respectively, on behalf of its employees. Employee contributions for the years ended June 30, 2017 and 2016 totaled \$32,550 and \$32,306, respectively. The Board has authority over the SEP plan.

NOTE 6 - ACCRUED VACATION

Changes to accrued vacation are as follows:

| Balance 7/1/2016 | Increases | Decreases | Balance 6/30/2017 |
|---------------------|------------------|------------------|----------------------|
| <u>\$ 49,763</u> | <u>\$ 44,621</u> | <u>\$ 42,021</u> | <u>\$ 52,363</u> |
| Balance 7/1/2015 | Increases | Decreases | Balance 6/30/2016 |
| <u>\$ 47,222</u> | <u>\$ 43,614</u> | <u>\$ 41,073</u> | <u>\$ 49,763</u> |

NOTE 7 - LEASE COMMITMENTS

The Board has operating leases for two copiers and a postage machine. For the fiscal years ended June 30, 2017 and 2016, lease expense was \$6,531 and \$6,641, respectively. The following is a schedule of future minimum lease payments required under the leases:

| <u>Years Ending June 30:</u> | |
|------------------------------|------------------|
| 2018 | \$ 6,624 |
| 2019 | 6,624 |
| 2020 | 4,356 |
| 2021 | 3,267 |
| Total | <u>\$ 20,871</u> |

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 8 - RISK MANAGEMENT

The Board 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. These exposures to loss are managed using a combination of the purchase of commercial insurance and various State coverages. Tort claims of board members are self-insured, by the State, under the authority of the State Tort Claims Act. Additional coverage is provided to the Board under the State's public officers' and employees' liability insurance contract.

NOTE 9 - COMMITMENTS

In March 2014, the Board entered into a contract with Accela ("Accela Agreement") for the installation of a new software system. Monthly progress payments under the Services Agreement totaling \$115,915 and \$45,050 were paid and capitalized during the years ended June 30, 2015 and 2014, respectively. No progress billings were invoiced during the year ended June 30, 2016. The final progress billing of \$22,525 and change orders totaling \$22,203 were to be invoiced upon completion of the database conversion which the Board anticipated during the fiscal year ending June 30, 2017. The Board is currently in negotiations to be relieved of these costs, as no final product was delivered and the Board is unable to utilize the new software. Accordingly, the previously capitalized costs under the Services Agreement of \$160,965 were written off during the year ended June 30, 2017 and the resulting loss is included in nonoperating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

In connection with the Accela Agreement, subscription fees totaling \$166,790 were paid in April 2014 and covered the three-year period of March 31, 2014 through March 30, 2017. In 2016, the subscription contract amount was reduced by \$32,074 in the form of a credit memo to be applied against future charges, which was included in accounts receivable at June 30, 2016 and resulted in a reduction in subscription fees for the year ended June 30, 2016. As of the date the financial statements were available to be issued, management feels the collectability of this accounts receivable is unlikely and has written off the receivable balance, resulting in an increase in subscription fees of \$32,074 for the year ended June 30, 2017.

The Board entered into a twelve-month agreement for landscaping services beginning August 1, 2017, payable in monthly installments of \$600. Either party may discontinue the contract by giving thirty days written notice.

NOTE 10 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through September 19, 2017, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed.

The Board audit was conducted in approximately 70 hours at a total cost of \$8,250.