

**NORTH CAROLINA APPRAISAL BOARD**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2021 AND 2020**



# **NORTH CAROLINA APPRAISAL BOARD**

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## **NORTH CAROLINA APPRAISAL BOARD**

### **Management's Discussion and Analysis**

#### **For the Fiscal Year Ended June 30, 2021**

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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, 2021. 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 increased \$18,560, approximately 1.4%, due primarily to increases in renewal and CE roster fees, partially offset by a decrease in USPAP revenues, as the USPAP books are offered every other year.

Net non-operating revenue, comprised of net investment income, was \$5,540 for the current year, compared to \$44,771 in the prior year. The current year decrease is due primarily to a decrease in interest income and unrealized losses due to unfavorable market conditions.

The operating expenses of the Board decreased \$79,723, approximately 6.4%. There was a reduction of \$95,622 since there was no purchase of USPAP books for licensees in 2020-21. There were also decreases in staff and board member expenses attributed to the stay-at-home orders due to the COVID-19 pandemic. These decreases were offset by increased personnel costs due to cost of living wages and increased online payment processing fees.

#### **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).

#### **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.

**NORTH CAROLINA APPRAISAL BOARD**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2021**

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**Basic Financial Statements (Continued)**

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 years' operations.

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

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 3,277,576	\$ 2,450,449	\$ 2,248,074
Non-current assets	263,428	493,032	585,242
Capital assets - net of depreciation	1,787,729	1,807,887	1,828,310
Total assets	<u>5,328,733</u>	<u>4,751,368</u>	<u>4,661,626</u>
Current liabilities	1,324,533	901,293	905,034
Non-current liabilities	64,390	58,949	55,098
Total liabilities	<u>1,388,923</u>	<u>960,242</u>	<u>960,132</u>
Investment in capital assets	1,787,729	1,807,887	1,828,310
Unrestricted	2,152,081	1,983,239	1,873,184
Total net position	<u>\$ 3,939,810</u>	<u>\$ 3,791,126</u>	<u>\$ 3,701,494</u>
Operating revenues	\$ 1,308,920	\$ 1,290,360	\$ 1,254,840
Operating expenses	1,165,776	1,245,499	1,181,304
Operating income	143,144	44,861	73,536
Non-operating revenues	5,540	44,771	37,876
Changes in net position	<u>\$ 148,684</u>	<u>\$ 89,632</u>	<u>\$ 111,412</u>

**Events Affecting Future Operations**

**Market Demand** - The Appraiser Qualifications Board (AQB) implemented changes in the education requirements to become a real estate appraiser effective May 1, 2018. The changes no longer require a four-year degree to become Certified Residential and significantly reduces the time it takes for trainees to get the necessary experience to become licensed or certified. The North Carolina General Assembly passed legislation to adopt these changes in the criteria effective October 1, 2019. The changes appear to have created a significant increase in applications for Registered Trainee, Licensed Residential and Certified Residential since the revised criteria went into effect. In addition to the changes in the criteria, there has been a significant increase in real estate market activity over the past two years. This has increased the demand for real estate appraisals and therefore created a need for more appraisers to enter the profession. The total number of AMC's has remained mostly stable since registration began in 2011.

**NORTH CAROLINA APPRAISAL BOARD**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2021**

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**Events Affecting Future Operations (Continued)**

**Application and Renewal Fees** - Application and renewal fees have remained unchanged on appraiser licensees since 1994, and the cost of operations continues to steadily increase. Certified appraisers continue to renew at a high percentage, while new applications for Registered Trainee, Licensed Residential and Certified Residential have increased since the legislation went into effect allowing individuals to upgrade without a college education and reduced experience time for licensure or certification. While the reduction in some of the education and experience requirements has increased applications in the short term, changes in the valuation profession, including higher thresholds for when lenders choose to utilize appraisals, may make the long-term future less certain. The Board voted to allow appraisers and AMCs an additional three months to renew their licenses and registrations due to the COVID-19 pandemic, and this created a reduction in late fees incurred by licensees. It appears the coronavirus has not had a significant negative impact on the number of applications and renewals. It is possible the emergency rules created which allow applicants greater flexibility in the time and location when taking pre-licensing courses, has increased the number of new applications. Management will continue to diligently monitor renewals and applications since they account for over 90% of the Board's revenue.

**Technology Upgrades** - The Board is currently in the process of additional upgrades to the database and computer system. The ability to accept online payments for education rosters and appraiser license renewals went into effect during 2020 and more recently we included online payment for Temporary Practice Permits and AMC renewals. The next phases of enhancements will include real time uploading of information to the Appraisal Subcommittee's National Registry, a document library, new licensee database and improved enforcement management.

Due to the COVID-19 pandemic, the Board started working on projects to improve technology in the Boardroom and conference areas that would facilitate greater use of virtual meetings (using ZOOM, Teams, WebEx, etc.). These projects included video displays for hearings, meetings, and presentations as well as cameras and audio technology to allow for streaming and recording of Board meetings. The first phase included a mobile smart board and a monitor with room kit for the Director's office.

The Board recently earmarked additional funds for technology expenses over the next 2 to 4 years. In addition to these funds, the Appraisal Subcommittee made available non-competitive grants, to all appraiser regulatory jurisdictions over the next three years of up to \$120,000 per year. Staff was notified that the first year of grant funds has been approved and we are eligible for reimbursements for much of the recently completed technology upgrades. The upcoming phases of each project should be covered in year two of the ASC grant.

## **NORTH CAROLINA APPRAISAL BOARD**

### **Management's Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2021**

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**Personnel Needs** - Since 2017 the Board has operated with one less investigator position and reduced the contract with the NC Department of Justice for the Board's legal counsel, to a shared position with another agency. The increase in real estate market activity has increased both the number of applications for licensure being received as well as the number of enforcement cases being handled by staff. With the increase in applications and complaints, and the possibility of future retirements or attrition, management believes it might be a good time to consider bringing in additional staff to handle the review of work samples in the application process, as well some initial investigative duties and answering of inquiries from licensees and the public. With the amount of reserves currently available, and the additional funding in other areas provided by the grant and the reduction of expenses due to the pandemic, management feels this may be a good time to address staffing needs.

**Replacement of Fixed Assets** - The Board has occupied the current building since June 2006. In the spring of this year there was a leak in a water heater on the main floor that badly stained the carpet. Insurance will replace the carpet on this level, but before this is done it was recommended to do any painting in this area that might need to be done prior to installing the new carpet. Management has determined that the high traffic areas of the office need to be repainted (hallways, foyers, lobbies, etc.), and the third floor carpet in all areas except for the boardroom is also in need of replacement. These projects are currently being priced along with pressure washing and painting of the trim on the exterior of the building. It is anticipated all of these projects will be completed in the current fiscal 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. The Board recently increased the allocated funds for technology needs, litigation funds and ongoing maintenance to the building. The amounts earmarked appear to be adequate at this point and the ASC grants appear to also be a resource for many upcoming projects in the foreseeable future.

### **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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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. Our opinion is not modified with respect to this matter.

### **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 - 4, 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 23, 2021



**NORTH CAROLINA APPRAISAL BOARD**  
**Statements of Net Position**  
**June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS:</b>		
Current assets:		
Cash	\$ 2,694,596	\$ 2,114,785
Investments	566,905	332,657
Accounts receivable	12,724	-
Other current assets	3,351	3,007
Total current assets	<u>3,277,576</u>	<u>2,450,449</u>
Non-current assets:		
Investments	<u>263,428</u>	<u>493,032</u>
Capital assets - net:		
Land	440,000	440,000
Building	1,209,977	1,283,401
Furniture, equipment and software	137,752	84,486
Total capital assets - net	<u>1,787,729</u>	<u>1,807,887</u>
Total assets	<u>5,328,733</u>	<u>4,751,368</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	12,492	5,683
Payroll liabilities	14,641	5,620
National Registry fees payable	354,400	12,990
Unearned revenues	943,000	877,000
Total current liabilities	<u>1,324,533</u>	<u>901,293</u>
Non-current liabilities:		
Accrued vacation	<u>64,390</u>	<u>58,949</u>
Total non-current liabilities	<u>64,390</u>	<u>58,949</u>
Total liabilities	<u>1,388,923</u>	<u>960,242</u>
<b>NET POSITION:</b>		
Invested in capital assets	1,787,729	1,807,887
Unrestricted	<u>2,152,081</u>	<u>1,983,239</u>
Total net position	<u>\$ 3,939,810</u>	<u>\$ 3,791,126</u>

**NORTH CAROLINA APPRAISAL BOARD**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
Operating revenues:		
Renewal fees	<b>\$ 1,022,350</b>	\$ 988,850
Application fees	<b>97,800</b>	102,600
National Registry fees	<b>59,160</b>	59,900
Reciprocity	<b>21,600</b>	20,400
Course approval	<b>7,350</b>	8,000
Temporary permit applications	<b>43,050</b>	46,800
USPAP	<b>-</b>	17,690
CE roster fees	<b>41,115</b>	27,475
Civil penalties received	<b>-</b>	7,500
Other	<b>16,495</b>	11,145
Total operating revenues	<b>1,308,920</b>	1,290,360
Operating expenses:		
Personnel costs	<b>702,094</b>	668,047
Insurance	<b>100,521</b>	103,603
Staff expenses	<b>4,272</b>	19,497
Legal	<b>74,551</b>	73,663
Board member expenses	<b>7,792</b>	32,504
Professional fees	<b>9,200</b>	8,900
Building expenses	<b>57,111</b>	52,348
Office operations	<b>77,146</b>	80,064
Depreciation	<b>94,504</b>	79,345
USPAP	<b>-</b>	95,622
Civil penalties remitted	<b>-</b>	7,500
Other	<b>38,585</b>	24,406
Total operating expenses	<b>1,165,776</b>	1,245,499
Operating income	<b>143,144</b>	44,861
Non-operating revenues (expenses):		
Interest income	<b>16,311</b>	22,008
Unrealized gain (loss)	<b>(10,771)</b>	22,763
Total non-operating revenues	<b>5,540</b>	44,771
Changes in net position	<b>148,684</b>	89,632
Net position - beginning of year	<b>3,791,126</b>	3,701,494
Net position - end of year	<b>\$ 3,939,810</b>	\$ 3,791,126

**NORTH CAROLINA APPRAISAL BOARD**  
**Statements of Cash Flows**  
**Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from fees	\$ 1,374,920	\$ 1,281,350
Cash payments to employees for services	(687,632)	(664,328)
Cash payments to suppliers for goods and services	(21,963)	(432,775)
Cash payments for other operating expenses	(12,064)	(59,501)
Net cash provided by operating activities	<u>653,261</u>	<u>124,746</u>
Cash flows from investing activities:		
Purchase of investments, net of investment income reinvested	(15,415)	(18,160)
Interest on investments	16,311	22,008
Net cash provided by investing activities	<u>896</u>	<u>3,848</u>
Cash flows from capital and financing activities:		
Deposit on database upgrade	-	-
Acquisition of capital assets	(74,346)	(58,922)
Net cash used in capital and financing activities	<u>(74,346)</u>	<u>(58,922)</u>
Increase in cash	579,811	69,672
Cash - beginning of year	<u>2,114,785</u>	<u>2,045,113</u>
Cash - end of year	<u>\$ 2,694,596</u>	<u>\$ 2,114,785</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 143,144	\$ 44,861
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	94,504	79,345
Changes in assets and liabilities:		
Accounts receivable	(12,724)	-
Other current assets	(344)	430
Accounts payable	6,809	276
Payroll liabilities	9,021	(132)
National Registry fees payable	341,410	5,125
Unearned revenues	66,000	(9,010)
Accrued vacation	5,441	3,851
Total adjustments	<u>510,117</u>	<u>79,885</u>
Net cash provided by operating activities	<u>\$ 653,261</u>	<u>\$ 124,746</u>
Noncash capital and financing activities:		
Retirement of fully depreciated capital assets	<u>\$ 7,435</u>	<u>\$ 34,517</u>

## **NORTH CAROLINA APPRAISAL BOARD**

### **Notes to Financial Statements**

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#### **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 ("U.S. 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 U.S. 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.

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.

## **NORTH CAROLINA APPRAISAL BOARD**

### **Notes to Financial Statements**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Basis of Accounting (Continued)**

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 bank deposits held at program banks until reinvested, and are recorded at fair value. Certificates of deposit maturing within one year and bank deposits 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	5 - 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 an employee's termination or retirement.

##### **Unearned Revenues**

The Board's fees are assessed and collected on a fiscal year basis, which corresponds with the licensing 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.

## NORTH CAROLINA APPRAISAL BOARD

### Notes to Financial Statements

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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, 2021 were as follows:

Annual leave	\$ 56,000
Operating expenses	800,000
Replace fixed assets	100,000
Litigation	500,000
Technology	250,000
Total designated balances	<u>\$1,706,000</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. Amounts include bank deposits held at program banks until reinvested.

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.

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, 2021, the bank balance in this account was \$1,902,141.

## NORTH CAROLINA APPRAISAL BOARD

### Notes to Financial Statements

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#### NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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, 2021, the Board's uninsured cash balances totaled \$244,475. 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, 2021, 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>\$ 830,333</u>	14.9 Months	N/A

Certificates of deposit reported as investments include a component of cash deposits held at program banks until reinvested, in the amount of \$344,795. A reconciliation of deposits and investments for the Board to the basic financial statements at June 30, is as follows:

	<u>2021</u>	<u>2020</u>
Carrying amount of deposits with private financial institutions	\$ 2,425,087	\$ 1,845,944
Money market mutual funds	269,509	268,841
Investments in certificates of deposit	830,333	825,689
Total deposits and investments	<u>\$ 3,524,929</u>	<u>\$ 2,940,474</u>
Current:		
Cash	\$ 2,694,596	\$ 2,114,785
Short-term investments	566,905	332,657
Noncurrent:		
Investments	263,428	493,032
Total deposit and investments	<u>\$ 3,524,929</u>	<u>\$ 2,940,474</u>

#### 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.

**NORTH CAROLINA APPRAISAL BOARD****Notes to Financial Statements****NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)**

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 table sets 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, 2021:

	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	<u>\$ 830,333</u>	<u>\$ -</u>	<u>\$ 830,333</u>	<u>\$ -</u>

The following table sets 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, 2020:

	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	<u>\$ 825,689</u>	<u>\$ -</u>	<u>\$ 825,689</u>	<u>\$ -</u>

**NOTE 4 - CAPITAL ASSETS**

Capital assets consist of the following:

	Cost 6/30/2020	Acquisitions	Disposals	Cost 6/30/2021	Accumulated Depreciation	Net Amount
Land	\$ 440,000	\$ -	\$ -	\$ 440,000	\$ -	\$ 440,000
Building	2,314,938	-	-	2,314,938	1,104,961	1,209,977
Furniture/ equipment/ software	290,382	74,346	7,435	357,293	219,541	137,752
	<u>\$ 3,045,320</u>	<u>\$ 74,346</u>	<u>\$ 7,435</u>	<u>\$ 3,112,231</u>	<u>\$ 1,324,502</u>	<u>\$ 1,787,729</u>

	Cost 6/30/2019	Acquisitions	Disposals	Cost 6/30/2020	Accumulated Depreciation	Net Amount
Land	\$ 440,000	\$ -	\$ -	\$ 440,000	\$ -	\$ 440,000
Building	2,314,938	-	-	2,314,938	1,031,537	1,283,401
Furniture/ equipment/ software	265,977	58,922	34,517	290,382	205,896	84,486
	<u>\$ 3,020,915</u>	<u>\$ 58,922</u>	<u>\$ 34,517</u>	<u>\$ 3,045,320</u>	<u>\$ 1,237,433</u>	<u>\$ 1,807,887</u>



**NORTH CAROLINA APPRAISAL BOARD****Notes to Financial Statements**

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**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, 2021 and 2020, the Board contributed 10%, or \$58,550 and \$56,414, respectively, on behalf of its employees. Employee contributions for the years ended June 30, 2021 and 2020 totaled \$40,106 and \$33,576, respectively. The Board has authority over the SEP plan.

**NOTE 6 - ACCRUED VACATION**

Changes to accrued vacation are as follows:

Balance 7/1/2020	Increases	Decreases	Balance 6/30/2021
<u>\$ 58,949</u>	<u>\$ 48,005</u>	<u>\$ 42,564</u>	<u>\$ 64,390</u>
Balance 7/1/2019	Increases	Decreases	Balance 6/30/2020
<u>\$ 55,098</u>	<u>\$ 44,457</u>	<u>\$ 40,606</u>	<u>\$ 58,949</u>

**NOTE 7 - LEASE COMMITMENTS**

The Board has operating leases for two copiers and a postage machine. For the fiscal years ended June 30, 2021 and 2020, lease expense was \$6,786 and \$7,119, respectively. The following is a schedule of future minimum lease payments required under the leases:

<u>Years Ending June 30:</u>	
2022	\$ 6,412
2023	6,412
2024	4,200
2025	4,200
2026	700
Total	<u>\$ 21,924</u>

**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.

## **NORTH CAROLINA APPRAISAL BOARD**

### **Notes to Financial Statements**

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#### **NOTE 9 - SUBSEQUENT EVENTS**

Management of the Board evaluated subsequent events through September 23, 2021, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed other than noted below.

In July 2021, the Board received a Notice of Grant Award in the amount of \$117,200, which the Board plans to use toward technology and database upgrades.

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

The Board audit was conducted in approximately 70 hours at a total cost of \$9,600.