

**NORTH CAROLINA APPRAISAL BOARD**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2022 AND 2021**



**NORTH CAROLINA APPRAISAL BOARD**

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## **NORTH CAROLINA APPRAISAL BOARD**

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

#### **For the Fiscal Year Ended June 30, 2022**

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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, 2022. 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 two years are presented in the analysis.

#### **Financial Highlights**

The operating revenues of the Board increased \$133,219, approximately 10.18%, due primarily to a grant award received in the current year of \$97,749 and increases in renewal and application fees during the year.

Net non-operating expense, comprised of net investment income was \$2,337 for the current year, compared to net non-operating income of \$5,540 in the prior year. The current year decrease is due primarily to a decrease in interest income and an increase in unrealized losses due to unfavorable market conditions.

The operating expenses of the Board increased \$123,799, approximately 10.6%. There were increases in building expenses due to costs incurred for carpet replacement and painting because of water damage. There were also increases in office operations due to increased computer technology expenses, and increased personnel costs due to cost of living wages. Board member and staff expenses also increased as Covid travel restrictions eased in the current year.

#### **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.

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.

**NORTH CAROLINA APPRAISAL BOARD**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2022**

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**Basic Financial Statements (Continued)**

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

	<u>2022</u>	Restated <u>2021</u>	<u>2020</u>
Current assets	\$ 3,439,333	\$ 3,277,576	\$ 2,450,449
Non-current assets	12,292	281,493	493,032
Capital assets - net of depreciation	<u>1,756,833</u>	<u>1,787,729</u>	<u>1,807,887</u>
Total assets	<u>5,208,458</u>	<u>5,346,798</u>	<u>4,751,368</u>
Current liabilities	1,048,302	1,330,289	901,293
Non-current liabilities	75,095	79,187	58,949
Total liabilities	<u>1,123,397</u>	<u>1,409,476</u>	<u>960,242</u>
Investment in capital assets	1,754,328	1,785,241	1,807,887
Unrestricted	<u>2,330,733</u>	<u>2,152,081</u>	<u>1,983,239</u>
Total net position	<u>\$ 4,085,061</u>	<u>\$ 3,937,322</u>	<u>\$ 3,791,126</u>
Operating revenues	\$ 1,442,139	\$ 1,308,920	\$ 1,290,360
Operating expenses	<u>1,292,063</u>	<u>1,168,264</u>	<u>1,245,499</u>
Operating income	150,076	140,656	44,861
Non-operating revenues	<u>(2,337)</u>	<u>5,540</u>	<u>44,771</u>
Changes in net position	<u>\$ 147,739</u>	<u>\$ 146,196</u>	<u>\$ 89,632</u>

**Events Affecting Future Operations**

**Market Demand** - The North Carolina General Assembly passed legislation to adopt changes, that significantly reduce the time it takes for trainees to get the necessary experience to become licensed or certified, effective October 1, 2019. During the pandemic, the Appraisal Board temporarily put emergency rules in place removing the requirement that trainee courses be taken in the classroom. The Board voted to make that change permanent as of July 1, 2022. These changes 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 24-30 months. This has increased the demand for real estate appraisals and therefore created additional demand for trainees to enter the profession. While the interest rates have slowed real estate demand in recent months, there has yet to be a significant decrease in the number of applications. The Appraiser Qualifications Board has again changed the experience requirements, in an effort to remove barriers for getting into the profession and promote a more diverse work force in the appraisal profession. It is anticipated that virtual experience could be an option beginning in 2023 and this is likely creating optimism for those who have previously not been able to find supervisors willing to train them. 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, 2022**

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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, and new applications for Registered Trainee, Licensed Residential and Certified Residential have allowed the Board to either maintain steady revenues or even a have small surplus. It appears the pandemic has not had a significant negative impact on the number of applications and renewals. It is likely that the emergency rules created which allow applicants greater flexibility in time and location when taking pre-licensing courses, increased the number of new applications. Management will continue to monitor renewals and applications, of appraisers and AMCs, 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 Board recently added a document library and the process of creating real time uploading of information to the Appraisal Subcommittee is in process. The next phases of upgrades will be a new licensee database for appraisers and AMCs, and improved enforcement management.

Due to the 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.). Now that the Board is returning to live meetings several times a year, it is likely that we will be upgrading the technology within the boardroom to allow the streaming of Board meetings and possibly the ability of speakers to address the Board remotely.

The Board has funds earmarked for technology that should cover the next 2 to 4 years. In addition to these funds the Appraisal Subcommittee, beginning in 2021, made available non-competitive grants to all appraiser regulatory jurisdictions over the next three years of up to \$120,000 per year. In year one the ASC approved \$117,200, of which the Board has currently utilized approximately \$97,700. For year two, \$111,745 has been approved and along with the remainder of year one leaves a total of just over \$131,000 to be used on the current technology upgrades and support fees.

**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. In June, the Board authorized management to add an additional investigator and this position has been filled as of September 1, 2022. The Board's long time Deputy Director announced that he would be leaving, in mid-September, and the process to find a replacement is currently taking place. The additional investigator will increase the Board's personnel cost, while replacing the Deputy Director position should be mostly cost neutral. With the amount of reserves currently available, the additional funding, for other needs provided by the grant, and the reduction of expenses due to the pandemic, management is comfortable with the additional staffing costs currently being incurred.

**NORTH CAROLINA APPRAISAL BOARD**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2022**

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**Events Affecting Future Operations (Continued)**

**Replacement of Fixed Assets** - The Board has occupied the current building since June 2006. In the spring of 2021, there was a leak in a water heater on the main floor that badly stained the carpet. Insurance replaced the carpet on the main level. Before this was done, management decided it was an optimal time to have most of the high traffic areas repainted, (hallways, foyers, lobbies, etc.) and that the remaining carpet should be replaced in all areas except for the boardroom. We have also had a few AC units that recently needed repairs.

**Cash Reserves** -The Board continues to have designated unrestricted net assets necessary to cover operations, potential legal matters, technology and any possible repairs to fixed assets. The amounts earmarked appear to be adequate in all areas except Replacement of Fixed Assets. The Board may want to consider replenishing these designated funds.

**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

### ***Opinion***

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, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Appraisal Board as of June 30, 2022 and 2021, 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.

### ***Basis for Opinion***

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

### ***Responsibility of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements 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, 2022 and 2021, 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 6, 2022

**NORTH CAROLINA APPRAISAL BOARD**  
**Statements of Net Position**  
**June 30, 2022 and 2021**

	<u>2022</u>	<u>Restated 2021</u>
<b>ASSETS:</b>		
Current assets:		
Cash	\$ 2,608,947	\$ 2,694,596
Investments	827,437	566,905
Accounts receivable	405	12,724
Other current assets	2,544	3,351
Total current assets	<u>3,439,333</u>	<u>3,277,576</u>
Non-current assets:		
Investments	-	263,428
Right to use leased assets, net of amortization	12,292	18,065
Capital assets, net of depreciation	1,756,833	1,787,729
Total non-current assets	<u>1,769,125</u>	<u>2,069,222</u>
Total assets	<u>5,208,458</u>	<u>5,346,798</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	6,608	12,492
Payroll liabilities	11,841	14,641
National Registry fees payable	44,630	354,400
Unearned revenues	979,200	943,000
Lease liabilities, current portion	6,023	5,756
Total current liabilities	<u>1,048,302</u>	<u>1,330,289</u>
Non-current liabilities:		
Lease liabilities	8,774	14,797
Accrued vacation	66,321	64,390
Total non-current liabilities	<u>75,095</u>	<u>79,187</u>
Total liabilities	<u>1,123,397</u>	<u>1,409,476</u>
<b>NET POSITION:</b>		
Invested in capital assets	1,754,328	1,785,241
Unrestricted	2,330,733	2,152,081
Total net position	<u>\$ 4,085,061</u>	<u>\$ 3,937,322</u>

**NORTH CAROLINA APPRAISAL BOARD**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>Restated 2021</u>
Operating revenues:		
Renewal fees	\$ 1,033,700	\$ 1,022,350
Application fees	105,800	97,800
National Registry fees	63,120	59,160
Reciprocity	28,800	21,600
Course approval	7,150	7,350
Temporary permit applications	49,650	43,050
CE roster fees	32,015	41,115
Grant revenue	97,749	-
Other	24,155	16,495
Total operating revenues	<u>1,442,139</u>	<u>1,308,920</u>
Operating expenses:		
Personnel costs	716,177	702,094
Insurance	103,879	100,521
Staff expenses	15,654	4,272
Legal	77,166	74,551
Board member expenses	24,105	7,792
Professional fees	9,600	9,200
Building expenses	110,351	57,111
Office operations	99,301	69,671
Depreciation	85,694	94,504
Interest expense on lease liabilities	657	1,055
Amortization, right-to-use leased assets	5,773	8,908
Other	43,706	38,585
Total operating expenses	<u>1,292,063</u>	<u>1,168,264</u>
Operating income	<u>150,076</u>	<u>140,656</u>
Non-operating revenues (expenses):		
Interest income	10,091	16,311
Unrealized loss	(12,428)	(10,771)
Total non-operating revenues (expenses)	<u>(2,337)</u>	<u>5,540</u>
Changes in net position	147,739	146,196
Net position - beginning of year	<u>3,937,322</u>	<u>3,791,126</u>
Net position - end of year	<u><u>\$ 4,085,061</u></u>	<u><u>\$ 3,937,322</u></u>

**NORTH CAROLINA APPRAISAL BOARD**  
**Statements of Cash Flows**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>Restated 2021</u>
Cash flows from operating activities:		
Cash received from fees	\$ 1,478,339	\$ 1,374,920
Cash payments to employees for services	(717,046)	(687,632)
Cash payments to suppliers for goods and services	(746,531)	(14,488)
Cash payments for other operating expenses	(40,416)	(13,119)
Net cash provided by (used in) operating activities	<u>(25,654)</u>	<u>659,681</u>
Cash flows from investing activities:		
Purchase of investments, net of investment income reinvested	(9,532)	(15,415)
Interest on investments	10,091	16,311
Net cash provided by investing activities	<u>559</u>	<u>896</u>
Cash flows from capital and financing activities:		
Acquisition of capital assets	(54,798)	(74,346)
Payments on lease liabilities	(5,756)	(6,420)
Net cash used in capital and financing activities	<u>(60,554)</u>	<u>(80,766)</u>
Increase (decrease) in cash	(85,649)	579,811
Cash - beginning of year	2,694,596	2,114,785
Cash - end of year	<u>\$ 2,608,947</u>	<u>\$ 2,694,596</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 150,076	\$ 140,656
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	85,694	94,504
Amortization, right-to-use leased assets	5,773	8,908
Changes in assets and liabilities:		
Accounts receivable	12,319	(12,724)
Other current assets	807	(344)
Accounts payable	(5,884)	6,809
Payroll liabilities	(2,800)	9,021
National Registry fees payable	(309,770)	341,410
Unearned revenues	36,200	66,000
Accrued vacation	1,931	5,441
Total adjustments	<u>(175,730)</u>	<u>519,025</u>
Net cash provided by (used in) operating activities	<u>\$ (25,654)</u>	<u>\$ 659,681</u>
Noncash capital and financing activities:		
Retirement of fully depreciated capital assets	<u>\$ 9,500</u>	<u>\$ 7,435</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 *Annual Comprehensive Financial Report* (ACFR). 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. The economic resource measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured, and depreciation is recorded as a cost of operations. 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.

Grant revenues are received under voluntary nonexchange transactions and are recognized when all applicable eligibility requirements are met and the funds are made available. Unspent funds at the end of the award period are returned.

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

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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 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.

**Changes in Financial Accounting and Reporting**

For the fiscal year ended June 30, 2022, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, and GASB Statement No. 98, *The Annual Comprehensive Financial Report*.

GASB Statement No. 87 increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

**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.

**NORTH CAROLINA APPRAISAL BOARD**

**Notes to Financial Statements**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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 - 8 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.

**Right-to-Use Leased Assets and Lease Liabilities**

Leases that provide the Board the right-to-use an asset for a period of more than one year are considered a capital asset. Right-to-use leased assets are recorded at the initial measurement of the lease liability which equals the present value of all payments expected to be made during the lease term. The right-to-use leased assets are amortized on a straight-line basis over the term of the lease(s).

Lease liabilities represent the Board's financial obligation to make lease payments during the term of the lease and is measured at the present value of future lease payments.

**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.

**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.

**NORTH CAROLINA APPRAISAL BOARD**

**Notes to Financial Statements**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Net Position (Continued)**

Designated amounts as of June 30, 2022 were as follows:

Annual leave	\$ 56,000
Operating expenses	800,000
Replace fixed assets	89,312
Litigation	500,000
Technology	189,573
Total designated balances	<u>\$ 1,634,885</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, 2022, the bank balance in this account was \$2,032,089.

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, 2022, the Board's uninsured cash balances totaled \$240,112. 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.



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

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at June 30, 2022, for the Board's investments.

Investment Type	Fair Value	Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$ 827,437</u>	8.2	N/A

Certificates of deposit reported as investments include a component of cash deposits held at program banks until reinvested, in the amount of \$572,327. A reconciliation of deposits and investments for the Board to the basic financial statements at June 30, is as follows:

	<u>2022</u>	<u>2021</u>
Carrying amount of deposits with private financial institutions	<b>\$ 2,339,025</b>	\$ 2,425,087
Money market mutual funds	<b>269,922</b>	269,509
Certificates of deposit	<b>827,437</b>	830,333
Total deposits and investments	<u><b>\$ 3,436,384</b></u>	<u>\$ 3,524,929</u>
Current:		
Cash	<b>\$ 2,608,947</b>	\$ 2,694,596
Short-term investments	<b>827,437</b>	566,905
Noncurrent:		
Investments	-	263,428
Total deposit and investments	<u><b>\$ 3,436,384</b></u>	<u>\$ 3,524,929</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.

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.

## NORTH CAROLINA APPRAISAL BOARD

### Notes to Financial Statements

#### NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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, 2022:

	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	<u>\$ 827,437</u>	<u>\$ -</u>	<u>\$ 827,437</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, 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>

#### NOTE 4 - CAPITAL ASSETS

Capital assets consist of the following:

	Cost 6/30/2021	Acquisitions	Disposals	Cost 6/30/2022	Accumulated Depreciation	Net Amount
Land	\$ 440,000	\$ -	\$ -	\$ 440,000	\$ -	\$ 440,000
Building	2,314,938	-	-	2,314,938	1,155,377	1,159,561
Furniture/ equipment/ software	357,293	54,798	9,500	402,591	245,319	157,272
	<u>\$ 3,112,231</u>	<u>\$ 54,798</u>	<u>\$ 9,500</u>	<u>\$ 3,157,529</u>	<u>\$ 1,400,696</u>	<u>\$ 1,756,833</u>

	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>

#### 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, 2022 and 2021, the Board contributed 10%, or \$60,792 and \$58,550, respectively, on behalf of its employees. Employee contributions for the years ended June 30, 2022 and 2021 totaled \$52,970 and \$40,106, respectively. The Board has authority over the SEP plan.

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

NOTE 6 - ACCRUED VACATION

Changes to accrued vacation are as follows:

Balance 7/1/2021	Increases	Decreases	Balance 6/30/2022
<u>\$ 64,390</u>	<u>\$ 49,445</u>	<u>\$ 47,514</u>	<u>\$ 66,321</u>
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>

NOTE 7 - RIGHT-TO-USE LEASED ASSETS AND RELATED LEASE LIABILITIES

The Board has a lease providing the right-to-use a copier for a term of 60 months beginning September 2020 with monthly lease payments of \$350 through August 2025. The board also has a lease providing the right-to-use a postage machine for a term of 48 months beginning July 2019 with monthly lease payments of \$147 for the first 12 months and \$184 for the remaining 36 months through June 2023.

Lease expenses were comprised of the following:

	<u>2022</u>	<u>2021</u>
Amortization expense by class of underlying asset:		
Copy machine	\$ 3,882	\$ 3,235
Postage machine	<u>1,891</u>	<u>5,673</u>
Total amortization expense	<u>\$ 5,773</u>	<u>\$ 8,908</u>
Interest on lease liabilities	<u>\$ 657</u>	<u>\$ 1,055</u>

	<u>6/30/2021</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2022</u>
Right-to-use leased assets activity:				
Copy machine	\$ 19,409	\$ -	\$ -	\$ 19,409
Postage machine	<u>7,564</u>	<u>-</u>	<u>-</u>	<u>7,564</u>
	<u>26,973</u>	<u>-</u>	<u>-</u>	<u>26,973</u>
Less: Accumulated amortization:				
Copy machine	3,235	3,882	-	7,117
Postage machine	<u>5,673</u>	<u>1,891</u>	<u>-</u>	<u>7,564</u>
	<u>8,908</u>	<u>5,773</u>	<u>-</u>	<u>14,681</u>
Right-to-use leased assets, net	<u>\$ 18,065</u>	<u>\$ (5,773)</u>	<u>\$ -</u>	<u>\$ 12,292</u>
Right-to-use leased assets activity:	<u>6/30/2020</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2021</u>
Copy machine	\$ 19,409	\$ -	\$ -	\$ 19,409
Postage machine	<u>7,564</u>	<u>-</u>	<u>-</u>	<u>7,564</u>
	<u>26,973</u>	<u>-</u>	<u>-</u>	<u>26,973</u>
Less: Accumulated amortization:				
Copy machine	-	3,235	-	3,235
Postage machine	<u>-</u>	<u>5,673</u>	<u>-</u>	<u>5,673</u>
	<u>-</u>	<u>8,908</u>	<u>-</u>	<u>8,908</u>
Right-to-use leased assets, net	<u>\$ 26,973</u>	<u>\$ (8,908)</u>	<u>\$ -</u>	<u>\$ 18,065</u>

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

NOTE 7 - RIGHT-TO-USE LEASED ASSETS AND RELATED LEASE LIABILITIES (Continued)

Lease liabilities were comprised of the following:

	<u>6/30/2021</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2022</u>
Copy machine	\$ 16,345	\$ -	\$ (3,724)	\$ 12,621
Postage machine	4,208	-	(2,032)	2,176
Total lease liabilities	<u>\$ 20,553</u>	<u>\$ -</u>	<u>\$ (5,756)</u>	<u>\$ 14,797</u>

  

	<u>6/30/2020</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2021</u>
Copy machine	\$ 19,409	\$ -	\$ (3,064)	\$ 16,345
Postage machine	7,564	-	(3,356)	4,208
Total lease liabilities	<u>\$ 26,973</u>	<u>\$ -</u>	<u>\$ (6,420)</u>	<u>\$ 20,553</u>

Future lease payments are comprised of the following:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2023	\$ 6,023	\$ 426	\$ 6,449
2024	3,973	212	4,185
2025	4,104	95	4,199
2026	697	3	700
Total	<u>\$ 14,797</u>	<u>\$ 736</u>	<u>\$ 15,533</u>

NOTE 8- GRANT AWARD

In July 2021, the Board received a notice of a grant award from The Appraisal Subcommittee of the Federal Financial Institution Examination Council in the amount of \$117,200 for year one of a three year grant award for the period from April 1, 2021 - March 31, 2024 to apply towards technological improvements. Of this amount, a total of \$97,749 was received and spent by the Board, leaving unspent funds of \$19,451 at June 30, 2022, which the Board anticipates will be spent during fiscal year ending June 30, 2023. In July 2022, the Board received notice of funding of \$111,745 for year two of the grant award.

NOTE 9 - COMMITMENTS

In September 2021, the Board entered into a software development contract to re-design its current software systems. Total costs under the contract are approximately \$185,450, of which \$40,000 had been paid and capitalized as of June 30, 2022. The Board anticipates the costs under the contract will be reimbursed under the grant funding discussed in Note 8 and substantially completed by June 2023.

NOTE 10 - 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 11 - RESTATEMENT

The adoption of GASB Statement No. 87 changed the manner in which the Board accounts for leases that provide the Board the right-to-use a copier and postage machine. Under GASB Statement No. 87, a lessee is required to recognize an intangible right-to-use lease asset and a lease liability. Right-to-use leased assets are recorded at the initial measurement of the lease liability which equals the present value of all payments expected to be made during the lease term. Right-to-use leased assets are amortized over the term of the lease contract. Lease payments are separated into interest expense and a reduction of the lease liabilities.

The effects of the changes as of and for the year ended June 30, 2021 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Statement of Revenues, Expenses and Changes in Net Position:			
Office operations	\$ 77,146	\$ 69,671	\$ 7,475
Interest expense on lease liabilities	\$ -	\$ 1,055	\$ (1,055)
Amortization, leased assets	\$ -	\$ 8,908	\$ (8,908)
Statement of Net Position:			
Right to use leased assets, net of amortization	\$ -	\$ 18,065	\$ (18,065)
Lease liabilities, current portion	\$ -	\$ (5,756)	\$ 5,756
Lease liabilities, noncurrent portion	\$ -	\$ (14,797)	\$ 14,797
Net position, end of year	\$(3,939,810)	\$(3,937,322)	\$ (2,488)

NOTE 12 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through September 6, 2022, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed other than the notice of grant award received in July 2022, discussed in Note 8 above.

The Board audit was conducted in approximately 80 hours at a total cost of \$10,600.