

NORTH CAROLINA APPRAISAL BOARD

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022



NORTH CAROLINA APPRAISAL BOARD

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NORTH CAROLINA APPRAISAL BOARD

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

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, 2023. 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 decreased \$30,504, approximately 2.12%, due primarily to a decrease in grant income recognized in the current year, partially offset by an increase in renewal fees.

Net non-operating revenue, comprised of net investment income was \$14,957 for the current year, compared to net non-operating expense of \$2,337 in the prior year. The current year increase is due to a increase in interest income and a decrease in unrealized losses indicative of favorable market conditions.

The operating expenses of the Board increased \$84,204, approximately 6.52%, due primarily to increases in personnel costs attributed to cost-of-living raises, and staff and board expenses due to increased travel, offset by a decrease in building expenses, reflecting prior year increased costs to replace carpet and painting.

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, 2023

Basic Financial Statements (Continued)

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

	2023	2022	Restated 2021
Current assets	\$ 3,559,017	\$ 3,439,333	\$ 3,277,576
Non-current assets	6,520	12,292	281,493
Capital assets - net of depreciation	1,694,420	1,756,833	1,787,729
Total assets	5,259,957	5,208,458	5,346,798
Current liabilities	1,060,915	1,048,302	1,330,289
Non-current liabilities	63,656	75,095	79,187
Total liabilities	1,124,571	1,123,397	1,409,476
Investment in capital assets	1,692,130	1,754,328	1,785,241
Unrestricted	2,443,256	2,330,733	2,152,081
Total net position	\$ 4,135,386	\$ 4,085,061	\$ 3,937,322
Operating revenues	\$ 1,411,635	\$ 1,442,139	\$ 1,308,920
Operating expenses	1,376,267	1,292,063	1,168,264
Operating income	35,368	150,076	140,656
Non-operating revenues (expenses)	14,957	(2,337)	5,540
Changes in net position	\$ 50,325	\$ 147,739	\$ 146,196

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. These 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 effective October 1, 2019. The changes appeared to create a significant increase in applications for Registered Trainee, Licensed Residential and Certified Residential since the revised were reduced in 2019. After a significant increase in real estate activity from 2020 until 2022 there appears to have been a reduction in demand due to the increasing interest rates. While we continue to steadily receive applications for Registered Trainee, Licensed Residential and Certified Residential it is expected that the renewal numbers for these license types may start to decrease. AMC renewals are down by a few more but remain largely stable.

NORTH CAROLINA APPRAISAL BOARD

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

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 have increased applications in the short term, increased interest rates have softened the market for both purchase and refinance loans. After COVID the Board adopted a rule to allow all the pre-licensing courses to be taken online, which makes these offerings widely available across the state and allows potential applicants to take the course at any time during the year, not just when a sponsor has enough students to offer a class. As always, management continues 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 making 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, AMC renewals, real time uploading of information to the Appraisal Subcommittee's National Registry and a document library. Currently we are working to update the appraiser licensee database and further out will look to integrate with the management of enforcement investigations and records.

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 three years of up to \$120,000 per year. The Board was awarded \$119,196 for our second-year grant. The Board received reimbursement of \$45,570, which covered the final payment of the SOAP API program from year one, AARO registration fees, yearly support and maintenance for the online AMC renewals, temporary practice permits and API programs, and the initial payment to begin upgrading the appraiser database. In July 2023, the Board was awarded \$96,110 for our third-year grant. With the funds awarded in year three, the Board plans to complete the appraiser database, appraisal management company database, and sponsor database, along with reimbursement for travel fees, computer equipment and the yearly monthly support and maintenance noted above.

Personnel Needs - Since 2017 the Board has operated with one less investigator position and beginning in 2019 reduced the contract with the NC Department of Justice, for the Board's legal counsel, to a shared position with another agency. Enforcement cases began to climb, and the decision was made to add a third investigator in September 2022, during that same time period the Board's longtime Deputy Director and Chief Investigator accepted a new role with another agency. The Board hired another Deputy Director focusing more on the management of the application and renewal process for applications and AMCs. Enforcement cases continue to come at a much higher rate, with many of them coming from the Government Sponsored Enterprises (GSE's). Management has been in discussion with the Board's leadership and decided there was a current need for a fourth investigator and that the new Deputy Director position and Office Manager have reduced the amount of administrative help necessary, and some of those resources should be allocated to enforcement.

NORTH CAROLINA APPRAISAL BOARD

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

Events Affecting Future Operations (Continued)

Replacement of Fixed Assets - The Board has occupied the current building since June 2006. As the building ages, updates and repairs to the building and the operating systems are becoming more frequent. During the current year it is expected that the exterior of the building will need pressure washing and selected areas painted, and we foresee some ongoing repairs to the HVAC system as well.

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 and ongoing maintenance to the building. The amounts earmarked appear to be adequate at this point and it is anticipated that the ASC grants will continue to be a resource for any upcoming projects.

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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 13, 2023

NORTH CAROLINA APPRAISAL BOARD
Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS:		
Current assets:		
Cash	\$ 2,715,501	\$ 2,608,947
Investments	840,485	827,437
Accounts receivable	586	405
Other current assets	2,445	2,544
Total current assets	<u>3,559,017</u>	<u>3,439,333</u>
Non-current assets:		
Right to use leased assets, net of amortization	6,520	12,292
Capital assets, net of depreciation	1,694,420	1,756,833
Total non-current assets	<u>1,700,940</u>	<u>1,769,125</u>
Total assets	<u>5,259,957</u>	<u>5,208,458</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	6,813	6,608
Payroll liabilities	3,569	11,841
National Registry fees payable	87,160	44,630
Unearned revenues	959,400	979,200
Lease liabilities, current portion	3,973	6,023
Total current liabilities	<u>1,060,915</u>	<u>1,048,302</u>
Non-current liabilities:		
Lease liabilities	4,837	8,774
Accrued vacation	58,819	66,321
Total non-current liabilities	<u>63,656</u>	<u>75,095</u>
Total liabilities	<u>1,124,571</u>	<u>1,123,397</u>
NET POSITION:		
Invested in capital assets	1,692,130	1,754,328
Unrestricted	2,443,256	2,330,733
Total net position	<u>\$ 4,135,386</u>	<u>\$ 4,085,061</u>

NORTH CAROLINA APPRAISAL BOARD
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
Operating revenues:		
Renewal fees	\$ 1,058,670	\$ 1,033,700
Application fees	93,600	105,800
National Registry fees	63,880	63,120
Reciprocity	31,200	28,800
Course approval	9,250	7,150
Temporary permit applications	48,600	49,650
CE roster fees	49,935	32,015
Grant revenue	45,570	97,749
Other	10,930	24,155
Total operating revenues	1,411,635	1,442,139
Operating expenses:		
Personnel costs	789,995	716,177
Insurance	105,242	103,879
Staff expenses	38,644	15,654
Legal	87,309	77,166
Board member expenses	40,129	24,105
Professional fees	10,600	9,600
Building expenses	56,478	110,351
Office operations	107,816	99,301
Depreciation	91,913	85,694
Interest expense on lease liabilities	426	657
Amortization, right-to-use leased assets	5,773	5,773
Other	41,942	43,706
Total operating expenses	1,376,267	1,292,063
Operating income	35,368	150,076
Non-operating revenues (expenses):		
Interest income	16,075	10,091
Unrealized loss	(1,118)	(12,428)
Total non-operating revenues (expenses)	14,957	(2,337)
Changes in net position	50,325	147,739
Net position - beginning of year	4,085,061	3,937,322
Net position - end of year	\$ 4,135,386	\$ 4,085,061

NORTH CAROLINA APPRAISAL BOARD
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from fees	\$ 1,346,265	\$ 1,380,590
Cash received from grants	45,570	97,749
Cash payments to employees for services	(805,769)	(717,046)
Cash payments to suppliers for goods and services	(366,734)	(746,531)
Cash payments for other operating expenses	(79,199)	(40,416)
Net cash provided by (used in) operating activities	<u>140,133</u>	<u>(25,654)</u>
Cash flows from investing activities:		
Purchase of investments, net of investment income reinvested	(14,167)	(9,532)
Interest on investments	16,075	10,091
Net cash provided by investing activities	<u>1,908</u>	<u>559</u>
Cash flows from capital and financing activities:		
Acquisition of capital assets	(29,500)	(54,798)
Payments on lease liabilities	(5,987)	(5,756)
Net cash used in capital and financing activities	<u>(35,487)</u>	<u>(60,554)</u>
Increase (decrease) in cash	106,554	(85,649)
Cash - beginning of year	<u>2,608,947</u>	<u>2,694,596</u>
Cash - end of year	<u><u>\$ 2,715,501</u></u>	<u><u>\$ 2,608,947</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 35,368	\$ 150,076
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	91,913	85,694
Amortization, right-to-use leased assets	5,773	5,773
Changes in assets and liabilities:		
Accounts receivable	(181)	12,319
Other current assets	99	807
Accounts payable	205	(5,884)
Payroll liabilities	(8,272)	(2,800)
National Registry fees payable	42,530	(309,770)
Unearned revenues	(19,800)	36,200
Accrued vacation	(7,502)	1,931
Total adjustments	<u>104,765</u>	<u>(175,730)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 140,133</u></u>	<u><u>\$ (25,654)</u></u>
Noncash capital and financing activities:		
Retirement of fully depreciated capital assets	<u><u>\$ 15,947</u></u>	<u><u>\$ 9,500</u></u>

See Notes to Financial Statements

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 ("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

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

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 and amortization, less lease liabilities.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

Designated unrestricted amounts are summarized as follows:

	Balance 6/30/2022	Additions	Expenditures	Balance 6/30/2023
Annual leave	\$ 56,000	\$ -	\$ -	\$ 56,000
Operating expenses	800,000	-	-	800,000
Replace fixed assets	89,312	60,688	(2,930)	147,070
Litigation	500,000	-	-	500,000
Technology	189,573	60,427	(29,500)	220,500
Total	<u>\$ 1,634,885</u>	<u>\$ 121,115</u>	<u>\$ (32,430)</u>	<u>\$ 1,723,570</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, 2023, the bank balance in this account was \$2,006,791.

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, 2023, the Board's uninsured cash balances totaled \$125,692. 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.

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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, 2023, 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>\$ 840,485</u>	8.2 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 \$592,493. A reconciliation of deposits and investments for the Board to the basic financial statements at June 30, is as follows:

	<u>2023</u>	<u>2022</u>
Carrying amount of deposits with private financial institutions	\$ 2,715,501	\$2,608,947
Money market mutual funds	592,493	572,327
Certificates of deposit	247,992	255,110
Total deposits and investments	<u>\$ 3,555,986</u>	<u>\$3,436,384</u>
Current:		
Cash	\$ 2,715,501	\$2,608,947
Short-term investments	840,485	827,437
Total deposit and investments	<u>\$ 3,555,986</u>	<u>\$3,436,384</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, 2023:

	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	<u><u>\$ 247,992</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 247,992</u></u>	<u><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, 2022:

	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	<u><u>\$ 255,110</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 255,110</u></u>	<u><u>\$ -</u></u>

NOTE 4 - CAPITAL ASSETS

Capital assets consist of the following:

	Cost 6/30/2022	Acquisitions	Disposals	Cost 6/30/2023	Accumulated Depreciation	Net Amount
Land	<u>\$ 440,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440,000</u>	<u>\$ -</u>	<u>\$ 440,000</u>
Building	<u>2,314,938</u>	<u>-</u>	<u>-</u>	<u>2,314,938</u>	<u>1,205,793</u>	<u>1,109,145</u>
Furniture/ equipment/ software	<u>402,591</u>	<u>29,500</u>	<u>15,947</u>	<u>416,144</u>	<u>270,869</u>	<u>145,275</u>
	<u><u>\$ 3,157,529</u></u>	<u><u>\$ 29,500</u></u>	<u><u>\$ 15,947</u></u>	<u><u>\$ 3,171,082</u></u>	<u><u>\$ 1,476,662</u></u>	<u><u>\$ 1,694,420</u></u>
	Cost 6/30/2021	Acquisitions	Disposals	Cost 6/30/2022	Accumulated Depreciation	Net Amount
Land	<u>\$ 440,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440,000</u>	<u>\$ -</u>	<u>\$ 440,000</u>
Building	<u>2,314,938</u>	<u>-</u>	<u>-</u>	<u>2,314,938</u>	<u>1,155,377</u>	<u>1,159,561</u>
Furniture/ equipment/ software	<u>357,293</u>	<u>54,798</u>	<u>9,500</u>	<u>402,591</u>	<u>245,319</u>	<u>157,272</u>
	<u><u>\$ 3,112,231</u></u>	<u><u>\$ 54,798</u></u>	<u><u>\$ 9,500</u></u>	<u><u>\$ 3,157,529</u></u>	<u><u>\$ 1,400,696</u></u>	<u><u>\$ 1,756,833</u></u>

NOTE 5 - RETIREMENT PLAN

Effective through December 2022, the Board had a simplified employee pension (SEP) plan covering all eligible employees with no waiting period. For the six months ended December 31, 2022 and the fiscal year ended June 30, 2022, the Board contributed 10% or \$31,135 and \$60,792, respectively, on behalf of its employees.

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 5 - RETIREMENT PLAN (Continued)

Effective January 2023, the Board adopted a 401(k) plan administered by Paychex Inc., covering all employees previously covered under the SEP plan and any new employees at least age 18 after completing a three-month period of service. The Board matches 100% of employee elective contributions to the plan up to 5% of their compensation. In addition, the Board may make discretionary contributions to the plan. Employee and employer contributions to the plan are immediately vested. For the six months ended June 30, 2023, the Board contributed 5% or \$17,456 on behalf of its employees.

Employee contributions for the years ended June 30, 2023 and 2022 totaled \$67,325 and \$52,970, respectively.

NOTE 6 - ACCRUED VACATION

Changes to accrued vacation are as follows:

Balance 7/1/2022	Increases	Decreases	Balance 6/30/2023
<u>\$66,321</u>	<u>\$ 53,576</u>	<u>\$ 61,078</u>	<u>\$ 58,819</u>
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>

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:

	2023	2022
Amortization expense by class of underlying asset:		
Copy machine	\$ 3,882	\$ 3,882
Postage machine	1,891	1,891
Total amortization expense	<u>\$ 5,773</u>	<u>\$ 5,773</u>
Interest on lease liabilities	<u>\$ 426</u>	<u>\$ 657</u>

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

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

	<u>6/30/2022</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2023</u>
Copy machine	\$ 19,409	\$ -	\$ -	\$ 19,409
Postage machine	7,564	-	-	7,564
	<u>26,973</u>	<u>-</u>	<u>-</u>	<u>26,973</u>
Less: Accumulated amortization:				
Copy machine	7,117	3,881	-	10,998
Postage machine	7,564	1,891	-	9,455
	<u>14,681</u>	<u>5,772</u>	<u>-</u>	<u>20,453</u>
Right-to-use leased assets, net	<u>\$ 12,292</u>	<u>\$ (5,772)</u>	<u>\$ -</u>	<u>\$ 6,520</u>
Right-to-use leased assets activity:	<u>6/30/2021</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2022</u>
Copy machine	\$ 19,409	\$ -	\$ -	\$ 19,409
Postage machine	7,564	-	-	7,564
	<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	5,673	1,891	-	7,564
	<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>

Lease liabilities were comprised of the following:

	<u>6/30/2022</u>	<u>Additions</u>	<u>Subtractions</u>	<u>6/30/2023</u>
Copy machine	\$ 12,621	\$ -	\$ (3,846)	\$ 8,775
Postage machine	2,176	-	(2,141)	35
Total lease liabilities	<u>\$ 14,797</u>	<u>\$ -</u>	<u>\$ (5,987)</u>	<u>\$ 8,810</u>
	<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>

Future lease payments are comprised of the following:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2024	\$ 3,973	\$ 212	\$ 4,185
2025	4,104	95	4,199
2026	733	3	736
Total	<u>\$ 8,810</u>	<u>\$ 310</u>	<u>\$ 9,120</u>

NORTH CAROLINA APPRAISAL BOARD

Notes to Financial Statements

NOTE 8 - GRANT AWARD

In July 2021, the Board received a notice of a three year grant award from The Appraisal Subcommittee of the Federal Financial Institution Examination Council for the period from April 1, 2021 - March 31, 2024 to apply towards technological improvements. Through June 30, 2023 a total of \$228,945 had been awarded, of which \$45,570 and \$97,749 was spent and recognized as income during the years ended June 30, 2023 and 2022, respectively. Unspent funds at June 30, 2023 totaled \$85,626. In July 2023, the Board received notice of funding of \$10,484 for year three of the grant award. Any unspent funds at March 31, 2024 are to be returned.

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 \$69,500 had been paid and capitalized as of June 30, 2023. The Board anticipates the costs under the contract will be reimbursed under the grant funding discussed in Note 8.

The Board entered into a five year lease agreement for a postage machine effective July 2023 with quarterly payments of approximately \$420.

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.

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through September 13, 2023, 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 2023, discussed in Note 8 above.

The Board audit was conducted in approximately 80 hours at a total cost of \$11,000.