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Appraisal Subcommittee
Federal Financial Institutions Examination Council

TO: Appraisal Subcommittee

FROM: Jim Park, Executive Director

DATE: February 23, 2016

RE: March 9, 2016 ASC Meeting Package

The enclosed materials are for the March 9th ASC Meeting. A Closed Session is scheduled. (Please note: Draft minutes are available in Word format on the www.asc.gov website to allow Board members to submit edits for staff to incorporate.)

OPEN SESSION

- Agenda for March 9th ASC Open Session Meeting
- Reports
 - Chairman Lindo – Chairman’s Report
 - Mr. Park – Executive Director’s Report
 - Mr. Hull – Financial Report
 - Ms. Graves – Delegated State Compliance Reviews
- November 4th ASC Open Session Meeting Minutes
 - The minutes are available in Word on the www.asc.gov Board Member tab for edits to be made by Board members. Please submit edits to Maria Cahn by close of business, March 2nd. A revised draft will be provided for the March 9th Meeting.
- Appraisal Foundation FY15 Grant Reprogramming Request
- Notice of Proposed Rulemaking on AMC Fees

CLOSED SESSION

- Agenda for March 9th ASC Closed Session Meeting
- Complaint/Request for Formal Investigation

- ASC Memo on Request for Formal Investigation

FYI - INFORMATIONAL ITEMS

Informational items do not require action by the ASC, but may be of interest to Board members.

- September 9th approved Open Minutes
- Compliance Review Reports for: Hawaii, Illinois, Kansas, Montana, New York, Oklahoma, Puerto Rico, Rhode Island, Virginia and Wyoming
- State Program Status Report
- Miscellaneous correspondence

Open Session

Cover Page

March 9, 2016



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Appraisal Subcommittee

Federal Financial Institutions Examination Council

Agenda

Date: March 9, 2016
Time: 10:00 a.m.
Location: FRB, International Square
1850 K Street, NW
Washington, DC 20006

Open Session

Reports

- | | |
|---|------------------|
| • Chairman | A. Lindo |
| • Executive Director | J. Park |
| • Financial Manager | G. Hull |
| • Delegated State Compliance Reviews | D. Graves |

Action and Discussion Items

- | | |
|--|------------------|
| • November 4, 2015 Open Session Minutes | A. Lindo |
| • Appraisal Foundation Grant | G. Hull |
| • Notice of Proposed Rulemaking on AMC Fees | A. Ritter |

Date: 12/18/15

**APPRAISAL SUBCOMMITTEE
OPEN SESSION MEETING MINUTES
NOVEMBER 4, 2015**

LOCATION: Federal Reserve Board – International Square location
1850 K Street NW, Washington, DC 20006

ATTENDEES

ASC MEMBERS: FRB – Art Lindo (Chair)
CFPB – Mira Marshall
FDIC – Rae-Ann Miller
FHFA – Robert Witt
HUD – Ada Bohorfoush
NCUA – Tim Segerson
OCC – Richard Taft

ASC STAFF: Executive Director – Jim Park
Deputy Executive Director – Denise Graves
General Counsel – Alice Ritter
Attorney-Advisor – Dan Rhoads
Financial Manager – Girard Hull
Policy Manager – Claire Brooks
Policy Manager – Jenny Tidwell
Management & Program Analyst – Lori Schuster
Administrative Officer – Brian Kelly
Administrative Assistant – Maria Cahn

OBSERVERS: Appraisal Institute – Brian Rodgers
CSBS – Margaret Liu
FDIC – Richard Foley
FDIC – Suzy Gardner
FDIC – Tim Millette
Finiti – Denise Herndon
FRB – Gillian Burgess
FRB – Ginny Gibbs
FRB – Carmen Holly
HUD – Robert Frazier
Illinois Office of the Governor – Kathy Lydon
OCC – Mitch Plave
Stewart Valuation Services – Frank O’Neill

The Meeting was called to order at 10:30 a.m. by A. Lindo. T. Segerson and J. Tidwell attended via telephone.

<OPEN SESSION>

REPORTS

- **Chairman**

A. Lindo welcomed the observers to the Meeting.

- **Executive Director**

J. Park reported on ASC staff activities since the ASC's September 9th Meeting. He attended a meeting of the Appraisal Practices Board (APB) in Denver, CO on September 10-11. The APB continues to struggle with finding and maintaining subject matter experts which is leading to delays in completing some projects timely and efficiently.

ASC staff attended the Appraiser Qualifications Board (AQB) Meeting on October 15-16 in Washington, DC. The AQB issued a White Paper in July that described an alternative track for the experience requirements. A hearing and panel discussion was held during the AQB Meeting and the general consensus by many attendees was that the AQB should continue to explore alternatives to the current experience requirements. Some attendees commented that the education component of the AQB Criteria should also be reviewed. J. Park also noted that since the revised AQB Criteria became effective on January 1, 2015, some States are having implementation issues that will likely be reflected in Compliance

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Review Reports. ASC staff has discussed these issues with AQB representatives on several occasions and the AQB's position remains that January 1, 2015, was a firm effective date for the revised Criteria.

ASC staff also attended the Association of Appraiser Regulatory Officials Fall Conference in Washington, DC on October 16-19. Chairman Lindo gave a keynote presentation for the conference, and ASC staff gave presentations on the Unique Identifier (UID) and ASC oversight of States' implementation of the appraisal management company (AMC) Final Rule that went into effect August 2015.

J. Park noted that the Revised ASC Policy Statements with the new rating system have been in effect since June 2013. In that time, 28 States have been rated "Good" and 11 have been rated "Excellent."

- **Financial Report**

G. Hull reported that the Appraisal Foundation (Foundation) submitted a grant reimbursement request for State grant funds in the amount of \$2,671 to fund its August 2015 expenses for grant-eligible activities; ASC staff approved the payment in full. To

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date, payments totaling \$162,692 for the FY15 State Grant have been reimbursed with \$156,308 remaining.

G. Hull noted that at the September 9th ASC Meeting, a question was raised concerning the FY16 budget line item “Maintenance of Registry and Website.” The narrative indicated that this FY16 line item budgeted at \$60,000 exceeded the FY15 line item by \$37,500. Although the FY15 amount of \$37,500 was not clearly shown on the budget spreadsheet for easy comparison, it was rolled up into the “FY15 IT Contracted Services” budgeted line item of \$82,821. Going forward, these items will be aligned for clarity.

G. Hull reported that the FY15 sequestration amount was \$256,712 and the U.S. Treasury has processed a warrant in this amount. This amount is 7.3% of the total ASC cash receipts deposited with the U.S. Treasury in FY15 which totaled \$3.5 million. This percentage is mandated by the Office of Management and Budget. R. Miller asked staff to include a brief summary of the cash reserves in future ASC Meeting packages.

- **Delegated State Compliance Reviews**

D. Rhoads reported on State Compliance Reviews completed pursuant to delegated authority since the ASC’s September 9th Meeting. Four State Compliance Reviews were

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finalized and approved by the Executive Director under delegated authority. Ohio was awarded a Finding of “Excellent” and will remain on a two-year Review Cycle. Alaska and Wisconsin were awarded a Finding of “Good” and each State will be moved from a one-year to a two-year Review Cycle. Mississippi was awarded a Finding of “Needs Improvement” and will remain on a two-year Review Cycle.

- **2016 Operating Plan**

J. Park discussed the general timing for projects the ASC has identified as priorities. This includes the UID, AMC registry fee rulemaking, the design/build of the National Registry of AMCs, and enforcement rulemaking. Some States are testing the UID system and it appears to be working well. Staff will notify States by the end of 2015 that the UID system is operational and available on a voluntary basis through the end 2016. By the end of the 1st quarter of 2016, staff will determine if rulemaking is necessary to require States to use the UID system. The proposed rule on AMC registry fees should be an action item for the January 13th ASC Meeting. Once approved by the ASC, the Notice of Proposed Rulemaking will be published in the Federal Register with a 60-day comment period. Staff is working on the design of the National Registry of AMCs. A. Lindo asked staff to provide quarterly updates on the status of these projects.

- **AMC National Registry Fee Rulemaking Update**

Date: 12/18/15

A. Ritter said that ASC staff is currently working on regulatory analysis and review which should be completed by the end of November. She anticipates having a draft ready by the end of November which will be sent to ASC members and their legal staffs for review and edit.

- **Appraisal Subcommittee Advisory Committee (ASCAC) – Staff recommendations**

A. Ritter presented the ASC staff comments on the ASCAC Recommendations. Staff agrees with most of the recommendations. R. Witt asked if the recommendations that will be implemented will be a part of future ASC annual operating plans. J. Park responded yes and said that staff will focus on the enforcement recommendations first. A. Lindo suggested that ASC staff track each of the recommendations that will be implemented with a timeline for completion. He also requested a quarterly update to the ASC on the progress of the implementation of the recommendations. R. Taft asked if disciplinary actions, such as a suspension that affect an appraiser's eligibility to appraise, are available on the public side of the National Registry indefinitely. D. Graves responded that they are only viewable while the action is in effect. After that date, it is only viewable to authorized users. T. Segerson asked if there has ever been any discussion by the ASC regarding how long disciplinary actions should be available to the public on the National Registry. J. Park responded that staff will research this and provide an update to the ASC.

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- **National Registry Unique Identification Number**

B. Kelly gave an update on the UID project. The purpose of the UID is to replace an appraiser's Social Security Number (SSN) on the National Registry. When the UID is in place, States will no longer be able to use a SSN to look up an appraiser. R. Taft asked whether the current database that does include SSNs will still be available anywhere. B. Kelly responded that the current database will be removed from the ASC website and will be placed on a separate server that is not attached to the website. A. Lindo questioned why the old database would need to be archived. B. Kelly responded that it was to allow staff to verify data sent in by the State and would be purged after five years. R. Taft asked how the ASC would respond if a State refuses to send in the SSN so that appraisers can be assigned a UID. B. Kelly recommended setting a date for States to stop sending in SSNs. R. Witt asked if the UID would be used for verification of appraisers in AMC panels and how this would affect States that do not implement an AMC program. B. Kelly answered that the States will not be sending in the AMC appraiser panel information to the ASC; States will only be sending in total number of appraisers on that individual AMC's panel. M. Marshall asked if there are States that do not collect SSNs. D. Graves responded there are currently about nine States that do not submit SSNs to the ASC. A. Lindo asked staff to report on this at the January 13th ASC Meeting.

ACTION ITEMS

Date: 12/18/15

- **September 9, 2015 Open Session Minutes**

R. Miller made a motion to approve the September 9th open session meeting minutes as edited. R. Witt seconded and all members present voted to approve.

The Open Session adjourned at 11:41 a.m. The next ASC Meeting will be January 13, 2016.

APPRAISAL SUBCOMMITTEE

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

APPRAISAL SUBCOMMITTEE

Financial Statements

September 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Appraisal Subcommittee of the
Federal Financial Institutions Examination Council
Washington, DC 20005

Report on the Financial Statements

We have audited the accompanying financial statements of the Appraisal Subcommittee, which comprise the statements of net position as of September 30, 2015 and 2014, the related statements of operations and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Appraisal Subcommittee as of September 30, 2015 and 2014, and the respective changes in net position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2016 on our consideration of the Appraisal Subcommittee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Appraisal Subcommittee's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

January 19, 2016

APPRAISAL SUBCOMMITTEE

Statements of Net Position

September 30,

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current Assets:		
Fund balances with U.S. Treasury	\$ 6,150,448	\$ 6,192,817
Restricted fund balances with U.S. Treasury	1,371,513	1,015,782
Accounts receivable	<u>554,820</u>	<u>532,914</u>
Total Current Assets	<u>8,076,781</u>	<u>7,741,513</u>
Property and Equipment, net	<u>22,107</u>	<u>18,894</u>
Total Assets	<u>\$ 8,098,888</u>	<u>\$ 7,760,407</u>

Liabilities and Net Position

Current Liabilities:		
Accounts payable	\$ 66,046	\$ 28,855
Grants payable	184,560	193,030
Accrued expenses	319,611	301,110
Unearned revenues	<u>1,384,423</u>	<u>1,578,171</u>
Total Current Liabilities	<u>1,954,640</u>	<u>2,101,166</u>
Non-Current Liabilities:		
Unearned revenues	81,644	91,973
Restricted funds held for others	<u>1,371,513</u>	<u>1,015,782</u>
Total Non-Current Liabilities	<u>1,453,157</u>	<u>1,107,755</u>
Total Liabilities	<u>3,407,797</u>	<u>3,208,921</u>
Net Position	<u>4,691,091</u>	<u>4,551,486</u>
Total Liabilities and Net Position	<u>\$ 8,098,888</u>	<u>\$ 7,760,407</u>

The accompanying notes are an integral part of the financial statements.

APPRAISAL SUBCOMMITTEE

Statements of Operations and Changes in Net Position

For the Years Ended September 30,

	<u>2015</u>	<u>2014</u>
Registry Fees	<u>\$ 3,576,000</u>	<u>\$ 3,815,854</u>
Operating Expenses:		
Personnel compensation and benefits	1,947,680	1,916,893
Contracted services	393,592	340,918
Rent, communications and utilities	276,512	281,196
Travel and transportation	177,465	158,709
Printing and reproduction	24,125	32,943
Other	22,219	7,895
Supplies and materials	14,763	14,746
Depreciation	<u>11,039</u>	<u>18,902</u>
Total Operating Expenses	<u>2,867,395</u>	<u>2,772,202</u>
Appraisal Foundation Grants:		
ASB and AQB Grant	250,000	392,377
State Investigator Training Grant	<u>319,000</u>	<u>218,483</u>
Total Appraisal Foundation Grants	<u>569,000</u>	<u>610,860</u>
Changes in Net Position	139,605	432,792
Net Position, Beginning of Year	<u>4,551,486</u>	<u>4,118,694</u>
Net Position, End of Year	<u>\$ 4,691,091</u>	<u>\$ 4,551,486</u>

The accompanying notes are an integral part of the financial statements.

APPRAISAL SUBCOMMITTEE

Statements of Cash Flows

For the Years Ended September 30,

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net position	<u>\$ 139,605</u>	<u>\$ 432,792</u>
Adjustments to reconcile changes in net position to net cash provided by (applied to) operating activities:		
Depreciation	11,039	18,902
Changes in assets and liabilities:		
Accounts receivable	(21,906)	105,642
Accounts payable	37,191	(43,640)
Grants payable	(8,470)	(44,654)
Unearned revenues	(204,077)	116,861
Accrued expenses	<u>18,501</u>	<u>3,484</u>
Total Adjustments	<u>(167,722)</u>	<u>156,595</u>
Net Cash Provided by (Applied to) Operating Activities	<u>(28,117)</u>	<u>589,387</u>
Cash Flow from Investing Activity:		
Acquisition of property and equipment	<u>(14,252)</u>	<u>-</u>
Net Change in Fund Balances with U.S. Treasury	(42,369)	589,387
Fund Balances with U.S. Treasury, Beginning of Year	<u>6,192,817</u>	<u>5,603,430</u>
Fund Balances with U.S. Treasury, End of Year	<u>\$ 6,150,448</u>	<u>\$ 6,192,817</u>

The accompanying notes are an integral part of the financial statements.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements

September 30, 2015 and 2014

Note 1 - **Summary of Significant Accounting Policies**

Organization

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council (the "Appraisal Subcommittee" or "ASC") was created by Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989. The mission of the Appraisal Subcommittee is to monitor the certification and licensing programs of the States to determine compliance with Title XI of FIRREA. The purpose of this title is to ensure that the Federal financial and public policy interests in real estate related transactions will be protected by requiring that real estate appraisals utilized in connection with Federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision. In accordance with Title XI of FIRREA, an appraiser must be registered to perform appraisals connected to federal transactions. Effective January 1, 2012, ASC raised the annual fee assessed to the states from \$25 per registered appraiser to \$40.

The Federal financial institutions regulatory agencies include the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency, and the National Credit Union Administration. The member agencies of the Appraisal Subcommittee include the Federal financial institutions regulatory agencies, the Department of Housing and Urban Development, and the Federal Housing Finance Agency (FHFA). The CFPB and FHFA were added as members to the ASC as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).

Method of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards and Interpretations (SFFAS 34), as well as certain AICPA pronouncements specifically made applicable to federal government entities by FASAB Statements or Interpretations.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements - Continued

September 30, 2015 and 2014

Note 1 - **Summary of Significant Accounting Policies - Continued**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fund Balances with U.S. Treasury

Fund balances with the U.S. Treasury are amounts remaining as of fiscal year-end from which the Appraisal Subcommittee is authorized to make expenditures and pay liabilities resulting from operational activities, except as restricted by law.

Restricted Fund Balances with U.S. Treasury

Restricted fund balances with the U.S. Treasury are amounts restricted by law that the Appraisal Subcommittee received in conjunction with the fee increase, as permitted by the Dodd-Frank Act. These funds directly relate to 25% of the fee increase, which Congress did not specify were available for use by the Appraisal Subcommittee. Accordingly, these funds have been classified as a liability on the statement of net position.

Cash and Equivalents

For financial statement purposes, the Appraisal Subcommittee considers all investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consist of amounts due to the Appraisal Subcommittee for registry fees. As of the balance sheet date, management is of the opinion that an allowance for doubtful accounts is not necessary.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to ten years. The capitalization threshold is \$5,000 for assets with a useful life of three or more years. For bulk purchases, items will be capitalized when the individual useful lives are at least three years and have an aggregate value of \$15,000 or more.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements - Continued

September 30, 2015 and 2014

Note 1 - **Summary of Significant Accounting Policies - Continued**

Unearned Revenues

Registry fees received in advance are deferred and recognized as earned during the applicable fee year.

Tax Status

The Appraisal Subcommittee is a Federal governmental agency and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

Note 2 - **Property and Equipment**

Property and equipment at September 30, consist of the following:

	<u>2015</u>	<u>2014</u>
Computer Equipment	\$ 432,410	\$ 418,158
Furniture	<u>31,803</u>	<u>31,803</u>
	464,213	449,961
Less: accumulated depreciation	<u>442,106</u>	<u>431,067</u>
Net Property and Equipment	<u>\$ 22,107</u>	<u>\$ 18,894</u>

Note 3 - **Retirement and Benefit Plans**

The Appraisal Subcommittee contributes to the Civil Service Retirement System and the Federal Employees' Retirement System administered by the Office of Personnel Management for the benefit of U.S. Government employees. The retirement plans are participatory. Under the Civil Service Retirement System, the employer and employee each contribute 7 percent of salary to the plan. Under the Federal Employees' Retirement System, 13 percent of salary is contributed by the Appraisal Subcommittee and 1 percent of salary is contributed by the employee.

The Appraisal Subcommittee contributes up to 5 percent of base pay for participants in the Thrift Savings Plan under the Federal Employees Retirement System. Contributions by the Appraisal Subcommittee during fiscal years 2015 and 2014 for the Civil Service Retirement System and the Federal Employees' Retirement System plans aggregated approximately \$237,000 and \$208,000, respectively.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements - Continued

September 30, 2015 and 2014

Note 3 - Retirement and Benefit Plans - Continued

Although the Appraisal Subcommittee contributes a portion of pension benefits for its employees participating in the retirement plans and withholds the necessary payroll deductions from them, it has no liability for future payments to employees under those programs and is not accountable for the assets of the Civil Service and Federal Employees' Retirement Systems, nor does the Appraisal Subcommittee have actuarial data concerning the accumulated plan benefits or the unfunded pension liability relating to its employees. These amounts are reported by the Office of Personnel Management for the retirement systems and are not allocated to the individual employers. The Office of Personnel Management also accounts for all health and life insurance programs for retired Federal employees.

Note 4 - Appraisal Foundation Grant

Title XI of FIRREA provides that amounts appropriated for, or collected by, the Appraisal Subcommittee be used to make grants to The Appraisal Foundation (the "Foundation") to help defray costs of the Foundation relating to the activities of its Appraisal Standards Board (ASB), Appraiser Qualification Board (AQB), and State Investigator Training Grants. Since inception of the Appraisal Subcommittee on August 9, 1989, it has made grants to the Foundation under which approximately \$18,814,000 was expended through September 30, 2015. As of September 30, 2015, the Appraisal Subcommittee has \$184,560 in undistributed grant funding available to the Foundation for the grant year ending September 30, 2015, which is recorded in grants payable.

Note 5 - Interagency Transactions

The Appraisal Subcommittee has a Memorandum of Understanding with the U.S. General Services Administration (GSA) to share the costs of office space, including operating costs and real estate taxes, expiring September 2018. Payments are due monthly, as billed by GSA. Base rent expense totaled \$230,453 and \$224,974 for the years ended September 30, 2015 and 2014, respectively. Although the ultimate responsibility of the lease is that of the GSA, the Memorandum of Understanding is a lease agreement, in substance rather than form.

APPRAISAL SUBCOMMITTEE

Notes to the Financial Statements - Continued

September 30, 2015 and 2014

Note 5 - **Interagency Transactions - Continued**

Minimum future payments under the agreement subsequent to September 30, 2015 are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2016	\$ 225,449
2017	225,449
2018	<u>225,449</u>
Total	<u>\$ 676,347</u>

In conducting its administrative operations, the Appraisal Subcommittee uses the services of various other Federal Agencies. The largest of the administrative service arrangements is with the U.S. General Services Administration for certain accounting and reporting functions, and processing of payroll and related benefits. Operating expenses of the Appraisal Subcommittee for fiscal years ended 2015 and 2014 include approximately \$44,000 and \$47,000, respectively, for these services. These costs are included in contracted services on the statements of operations.

Note 6 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through January 19, 2016, the date for which the financial statements were available for issuance.

**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***



**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government
Auditing Standards***

To the Appraisal Subcommittee of the
Federal Financial Institutions Examination Council
Washington, DC 20005

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Appraisal Subcommittee, which comprise the statement of net position as of September 30, 2015, the related statements of operations and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Appraisal Subcommittee's basic financial statements and have issued our report thereon dated January 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Appraisal Subcommittee's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Appraisal Subcommittee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Appraisal Subcommittee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Appraisal Subcommittee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Appraisal Subcommittee's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Appraisal Subcommittee's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

January 19, 2016

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Appraisal Subcommittee

Federal Financial Institutions Examination Council

TO: Appraisal Subcommittee

FROM: Girard Hull, Financial Manager

DATE: February 16, 2016

RE: ASC FY15 Budget vs. Actual Financial Data

We are pleased to report that as of January 19, 2016, the fiscal year 2015 (FY15) annual audit for the Appraisal Subcommittee (ASC) has been completed by the accounting firm of O'Connor & Drew, P.C. We received a clean opinion with no findings, weaknesses (material or immaterial), compliance issues, or internal control deficiencies.

The ASC's FY15 approved budget totaled \$3,802,136. As of September 30, 2015, the ASC budget was expended at 88.3% with total FY15 expenditures amounting to \$3,355,513 and \$446,623 remaining in unexpended surplus funds.

The FY15 revenue for the ASC totaled \$3,576,000. Projected FY15 revenue was \$3,580,587. This amounts to \$4,587 less or 99.9% of the projected FY15 revenue. The FY15 revenue total is \$239,854 (or 7%) lesser than the FY14 revenue amount of \$3,814,854.

FY15 net reserve funds for the ASC amounted to \$220,488. (The decrease in net reserves and revenue for FY15 over FY14 is attributable to a decline in the total credentials on the National Registry).

Also, in FY15 the ASC collected \$894,000 in restricted incremental fees for which \$670,500, or 75%, will be transferred back to our available operating account.

In FY15, the ASC budgeted a \$250,000 grant to the Appraisal Foundation (TAF) for the grant-eligible activities of the Appraisal Standards Board and Appraiser Qualifications Board. The ASC also budgeted a \$319,000 grant to the States, which TAF administers, for the FY15 State Investigator Training Program. The ASC FY15 Statements of Operations and Changes in Net Position, for the period ending September 30, 2015, shows TAF grant cash expenditures of \$228,266 and accrued expenditures of \$21,734. TAF was reimbursed \$228,266, or 91.3% of grant-eligible expenditures. TAF submitted a \$21,734 reprogramming request, and if approved by the ASC, it will increase total TAF FY15 expenditures to \$250,000 or 100% of total FY15 grant approved funds. We expect TAF to utilize the entire amount budgeted.

The ASC FY15 Statements of Operations and Changes in Net Position, for the period ending September 30, 2015, shows the State grant cash expenditures for the State Investigator Training Program of \$238,117 and accrued expenditures of \$80,883. Reimbursements for the State grant

totaled \$238,117, or 74% of the \$319,000 budgeted. At this time, we do not anticipate additional expenditures or reprogramming requests for the FY15 State grant. This results in an \$80,883 reduction of total grant expenditures for the FY15 State grant, and thereby increases the ASC FY15 net position from \$139,605 to \$220,488 ($\$139,605 + \$80,883$).

The ASC's FY15 Statement of Operations and Changes in Net Position takes into account the sequestration amount for 7.3% of available cash receipts. The amount of the FY15 funds sequestered was \$256,712. For FY16, the applicable sequestration percentage against available receipts has been set at 6.8%.

In conclusion, based upon all information we have at this time, we do not foresee any risks or contingencies that may significantly or adversely affect our normal fiscal operations.



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December 8, 2015

Mr. James Park
Executive Director
Appraisal Subcommittee
Federal Financial Institutions Examination Council
1401 H Street, NW, Suite 760
Washington, DC 20005

Ref: 2014-2015 Federal Grant
Request for Reimbursement of "Reprogrammed Expenses"

Dear Mr. Park:

As you may be aware, The Appraisal Foundation has submitted for reimbursement \$228,266 of the 2014-2015 grant award amount of \$250,000 for the activities of the Appraisal Standards Board (ASB) and the Appraiser Qualifications Board (AQB). Because of budget category limits, the ASB has \$10,158 of their grant funds remaining and the AQB \$11,576 (see attached spreadsheet). Together, this is a total of \$21,734 in unreimbursed grant funds. This is a request to reprogram this unused balance to other Title XI budget categories.

Since 2008 the AQB has developed and issued the National Uniform Licensing and Certification Examinations. These examinations are thoroughly reviewed and updated on an annual basis to ensure that they reflect current appraisal methodology, techniques and performance standards. The AQB engages an outside professional psychometric consulting firm to assist them in this program. As you can see from the attachment entitled "Exhibit A," the annual cost of this consultant is \$49,600 plus actual costs incurred.

Our 2015 grant budget allocated \$28,747 for our psychometric consultant. Our actual expenses totaled \$52,092. We are requesting that the \$21,734 of unused grant funds be reprogrammed to cover a majority of the \$23,345 in expenses incurred by the Foundation that were not reimbursed by the grant.

Thank you for your consideration of this request. We would be pleased to meet with you to address any questions or concerns you may have. I can be reached at (202) 624-3040 or by e-mail at david@appraisalfoundation.org. Questions can also be directed to Cathy Johnson, Vice President of Finance and Administration. She can be reached at (202) 624-3042 or by e-mail at cathy@appraisalfoundation.org.

Sincerely,

A handwritten signature in black ink, appearing to read "David S. Bunton", with a stylized flourish at the end.

David S. Bunton
President

Enclosure

EXHIBIT A

STATEMENT OF WORK

This applicable Statement of Work Addendum is attached hereto and made part hereof that certain Professional Services Agreement between TAF (Customer) and PSI Services LLC (Consultant), effective March 13, 2013, and further serves to extend the Professional Services Agreement for a term of four (4) years.

The Scope of Work is fully delineated in PSI's February 10, 2015 proposal submitted separately to the TAF. The project milestones and costs are outlined below, and include hosting of the four test item banks (CR, CG, LR and USPAP) during the contract period. These costs assume that TAF will provide subject matter experts to participate in the exam development and review, and does not include any costs for their participation. PSI travel expenses will be billed for actual costs incurred, subject to TAF approval. PSI will submit an invoice for each completed milestone, payable 30 days net. PSI travel costs will be billed for actual costs incurred, subject to TAF approval. Please note that in years 2016-2018, project activities #1 and #3 are optional services. Prior to each year, PSI will advise the TAF regarding whether these optional services are recommended, for approval by the TAF.

Exam Development in 2015

Project Activity	Professional Days	Cost
1. Item writer training and item development	6	\$7,440
2. Development and maintenance of item pool	8	\$9,920
3. Exam review workshop	8	\$9,920
4. Test deployment	6	\$7,440
5. Monthly reporting to the AQB	12	\$14,880
Total	40	\$49,600

Exam Development in 2016, 2017, and 2018

Project Activity	Professional Days	Cost
2. Development and maintenance of item pool	8	\$9,920
4. Test deployment	6	\$7,440
5. Monthly reporting to the AQB	12	\$14,880
Subtotal	26	\$32,240
1. Item writer training and item development (optional)	6	\$7,440
3. Exam review workshop (optional)	8	\$9,920
Subtotal	14	\$17,360
Total	40	\$49,600

IN WITNESS WHEREOF, the parties have executed and delivered this Addendums.

CUSTOMER:

PSI SERVICES LLC

Signature

Signature

DAVID BUNTON President
Name/Title (Typed or Printed)

JEFFREY E. MORIE, CFO
Name/Title (Typed or Printed)

Date

Date

THE APPRAISAL FOUNDATION
2014-2015 GRANT BUDGET SUMMARY
YEAR-TO-DATE @ SEPTEMBER 2015

	TOTAL AOB	GRANT BUDGET	(OVER) UNDER	TOTAL ASB	GRANT BUDGET	(OVER) UNDER	TOTAL ITP	GRANT BUDGET	(OVER) UNDER	SUMMARY ALL PROGRAMS	TOTAL GRANT BUDGET	BALANCE REMAINING (over)/under
DIRECT LABOR	17,307	17,307	(0)	12,231	12,231	0	13,954	24,310	10,356	43,492	53,848	10,356
Fringe @ 29.4%	5,088	5,088	(0)	3,596	3,596	0	4,102	7,147	3,045	12,787	15,831	3,045
Direct Labor + Fringe	22,396	22,395	(1)	15,826	15,826	(0)	18,056	31,457	13,401	56,278	69,678	13,400
Overhead @ 66.9%	14,983	14,982	(0)	10,588	10,588	(0)	12,080	21,045	8,965	37,650	46,615	8,965
TOTAL INDIRECT COST												
REIMBURSEMENT (Fringe + OH)	20,071	20,071	(0)	14,184	14,183	(0)	16,182	28,191	12,009	50,437	62,445	12,008
EXPENSES:												
Postage and Delivery				-			1,719	1,719	-	1,719	1,719	-
Printing				-			8,825	9,000	175	8,825	9,000	175
Legal	6,423	18,000	11,578	10,479	18,000	7,521	-	-	-	16,902	36,000	19,099
Consulting	10,800	10,800	-	28,564	31,200	2,636	23,475	43,500	20,025	62,839	85,500	22,661
Travel	41,960	41,960	-	37,500	37,500	0	173,962	212,280	38,318	253,422	291,740	38,318
Subcontractor	28,747	28,747	-	-	-	-	-	-	-	28,747	28,747	-
Total Expenses	87,930	99,507	11,578	76,543	86,700	10,157	207,981	266,499	58,518	372,454	452,706	80,252
TOTAL DIRECT LABOR + INDIRECT COSTS + EXPENSES	125,309	136,885	11,576	102,957	113,115	10,158	238,117	319,000	80,883	466,381	569,000	102,619

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Appraisal Subcommittee

Federal Financial Institutions Examination Council

TO: Appraisal Subcommittee

FROM: Jim Park, Executive Director

DATE: February 16, 2016

RE: FY15 Appraisal Foundation Request for Reimbursement of Reprogrammed Expenses

The Appraisal Foundation (Foundation) has submitted a \$21,734 reprogramming request for the ASC's 2015 grant to the Foundation. Attached are the Foundation's December 8, 2015 letter and supporting documentation. To date, the Foundation has been reimbursed \$228,266 of the \$250,000 approved for 2015.

The Appraiser Qualifications Board (AQB) consulting costs for the National Uniform Licensing and Certifications Examinations in 2015 totaled \$49,600. These examinations are reviewed and updated annually. The AQB uses an outside professional psychometric consulting firm to assist with these services. The Foundation budgeted \$10,800 for these services in 2015 and the actual cost of these services exceeded the budgeted amount by \$38,800.

The AQB legal costs for 2015 were \$11,576 below budget. The Foundation is therefore requesting that the \$11,576 be reprogrammed to AQB consulting. We concur that areas of increased cost were grant-eligible and would have been recommended to the ASC for approval if they had been known and included in the original 2015 grant proposal.

The Appraisal Standards Board (ASB) legal costs for 2015 were \$7,522 below budget and the ASB consulting costs were \$2,636 below budget. The Foundation is therefore requesting that \$10,158 of the unused ASB grant funds also be reprogrammed to AQB consulting. We concur that areas of increased cost were grant-eligible and would have been recommended to the ASC for approval if they had been known and included in the original 2015 grant proposal.

Recommendation – We have reviewed the documentation provided by the Foundation. We compared claimed reimbursements and requested reprogramming against the 2015 ASC-approved grant and against our records from attending Foundation meetings and reviewing both public and private Foundation documents. We analyzed the reimbursements using testing techniques recommended by our auditors. Based on the documents provided by the Foundation and our review, we find that the expense items identified in the reprogramming request adequately reflect authorized grant-eligible activities. Staff recommends approval of the Foundation's \$21,734 reprogramming request as discussed above. Approval of the request would bring total reimbursements to \$250,000 of the total \$250,000 grant amount approved for 2015.

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Appraisal Subcommittee

Federal Financial Institutions Examination Council

TO: Appraisal Subcommittee

FROM: Girard Hull, Financial Manager

DATE: March 9, 2016

RE: FY16 Appraisal Foundation Request for Reallocation of Certain AQB Expenses

On February 2, 2016, the Appraisal Foundation (Foundation) submitted the attached request to reallocate travel funds within the 2016 Appraiser Qualifications Board (AQB) grant budget.

The original 2016 AQB Business Plan included three meetings of subject matter experts on the *National Uniform Licensing and Certification Examination* (Exam). The purpose of these meetings is to update the Exam. The travel budget for these three meetings is \$42,930. The consultant in charge of conducting these meetings has indicated he can conduct these meetings via webinar.

In lieu of in-person meetings, the Foundation is proposing that the AQB hold a two-day work session in June and a public meeting in early September to more fully explore alternative tracks for obtaining experience and education to become a State certified appraiser. The cost of these meetings is budgeted at \$34,040.

ASC staff has reviewed the request and supporting documentation. We find that the expense items identified in the reallocation request adequately reflect authorized grant-eligible activities. Therefore ASC staff intends to approve the request. No Board action is required.