

Report No. 2006-19

August 31, 2006



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

Appraiser Certification and Licensure Board

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

Contract Auditor: Merina & Company, LLP

State of Oregon

Appraiser Certification and Licensure Board

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State



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Auditing for a Better Oregon

The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301

The Board of Directors
Appraiser Certification and Licensure Board
1860 Hawthorne Avenue NE, Suite 200
Salem, Oregon 97303

This report contains audited financial statements of the Appraiser Certification and Licensure Board, a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2005, and a report on its internal control over financial reporting and on compliance with applicable laws, regulations and contracts. The audit was performed by Merina & Company, LLP for the Secretary of State Audits Division.

OREGON AUDITS DIVISION

A handwritten signature in blue ink, appearing to read "C.A. Hibner", is written over a light blue rectangular background.

Charles A. Hibner, CPA
Director

**APPRAISER CERTIFICATION
AND LICENSURE BOARD**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA**

For the Biennium Ended

June 30, 2005

with

Independent Auditors' Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Appraiser Certification and Licensure Board
1860 Hawthorne Avenue NE, Suite 200
Salem, Oregon 97303

Charles A. Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

We have audited the accompanying financial statements of the governmental activities, and the special revenue fund of the Appraiser Certification and Licensure Board, a semi-independent agency of the State of Oregon, as of and for the two years ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Appraiser Certification and Licensure Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appraiser Certification and Licensure Board as of June 30, 2005, and the respective changes in financial position, and the respective budgetary comparison statement for the special revenue fund for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2006, on our consideration of the Appraiser Certification and Licensure Board's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report is separately presented in the Other Reports section as listed in the table of contents.


Merina & Company, LLP

West Linn, Oregon
June 6, 2006

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 83,347
Interest receivable	5,801
Investments	<u>400,000</u>
Total assets	<u><u>\$ 489,148</u></u>
 LIABILITIES:	
Accounts payable	\$ 7,472
Compensated absences	5,882
Payroll liability	<u>41</u>
Total liabilities	<u>13,395</u>
 NET ASSETS:	
Unrestricted	<u>475,753</u>
Total net assets	<u>475,753</u>
Total liabilities and net assets	<u><u>\$ 489,148</u></u>

The accompanying notes are an integral part of these financial statements

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF ACTIVITIES
For the Biennium Ended June 30, 2005

	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
EXPENSES:		
Governmental activities:		
Licensing	\$ 915,169	\$ (915,169)
Total program expenses		<u>(915,169)</u>
GENERAL REVENUES:		
General revenues:		
Licenses and fees		951,880
Interest		12,561
Miscellaneous		<u>3,613</u>
Total general revenues		<u>968,054</u>
Change in net assets		52,885
NET ASSETS, BEGINNING		<u>422,868</u>
NET ASSETS, ENDING		<u><u>\$ 475,753</u></u>

The accompanying notes are an integral part of these financial statements

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2005

	Total Governmental Fund
ASSETS:	
Cash and cash equivalents	\$ 83,347
Interest receivable	5,801
Investments	<u>400,000</u>
Total assets	<u><u>\$ 489,148</u></u>
 LIABILITIES AND FUND BALANCE:	
Accounts payable	\$ 7,472
Compensated absences	5,882
Payroll liabilities	<u>41</u>
Total liabilities	<u>13,395</u>
 FUND BALANCE:	
Unreserved	475,753
Total fund balance	<u>475,753</u>
Total liabilities and fund balance	<u><u>\$ 489,148</u></u>

The accompanying notes are an integral part of these financial statements

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
For the Biennium Ended June 30, 2005

	Total Governmental Fund
REVENUES:	
License and fees	\$ 951,880
Interest	12,561
Miscellaneous	3,613
	<hr/>
Total revenues	968,054
	<hr/>
EXPENDITURES:	
Personal services	515,869
Service and supplies	399,300
	<hr/>
Total expenditures	915,169
	<hr/>
Revenues over (under) expenditures	52,885
FUND BALANCE, BEGINNING	422,868
	<hr/>
FUND BALANCE, ENDING	<u><u>\$ 475,753</u></u>

The accompanying notes are an integral part of these financial statements

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

NATURE OF THE ORGANIZATION

The Appraiser Certification and Licensure Board (the Board) is responsible for the regulation of real estate appraisal activity in the State of Oregon. The Board licenses, certifies, supervises, and disciplines real estate appraisers and registers assistant appraisers in Oregon. As of January 1, 2005, the Board oversees 712 licensed appraisers, 155 certified residential appraisers, 497 certified general appraisers, and 234 appraiser assistants.

The Board's mission is to protect the public and Oregon financial institutions through regulation and supervision of licensed and certified real estate appraisers in Oregon. It fulfills this mission through the following programs:

- Develop appraisal education and experience criteria.
- Establish minimum licensing and registration requirements.
- License and certify real estate appraisers conducting real estate appraisal activity in the State of Oregon and register appraiser assistants.
- Provide temporary registration for out-of-state appraisers.
- Oversee training programs for appraiser assistants.
- Ensure that real estate appraisals are issued in writing and conducted in compliance with State and Federal guidelines and Uniform Standards of Professional Appraisal Practice (USPAP).
- Provide information to consumers and businesses that utilize real estate appraisal services.
- Investigate consumer complaints filed with the Board.
- Initiate complaints against licensed/certified appraisers who failed to comply with Oregon appraisal law or administrative rules or against person conducting unlicensed appraisal activity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Appraiser Certification and Licensure Board (the Board) is a semi-independent agency of the State of Oregon. The Board was created in 1991 and operates under Oregon Revised Statutes (ORS) Chapter 674. The Board consists of seven members appointed by the governor for four-year terms with a maximum of two terms. The Board examines applicants for licensure and imposes disciplinary proceedings against those who violate statutes. The Board also makes rules and enforces professional standards for the practice of appraising in Oregon.

Pursuant to Oregon Senate Bill 304 adopted in 2001, the Board was granted semi-independent status by the Legislature.

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

Basis of Presentation and Method of Accounting

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities. The accounts of the Board are organized on the basis of a special revenue fund. Revenues are from licenses and fees and interest income.

Government-wide Statements

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include all the financial activities of the Board.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available, except for license fees which are recognized when received. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

Budget

The Board is required to adopt budgets on a biennial basis. The Board may adopt or modify a budget only after holding a public hearing and must give notice of budget hearings to all licensees. The Board uses the modified accrual basis of accounting for budget purposes.

Unlike most budgets in state government where the agency budgets are enacted into law by the Legislature, the Board's budget is not subject to review and approval by the Legislature or to future modification by the Legislature or the Emergency Board. For this reason, the budgets adopted by the Board are considered to be nonappropriated budgets. The budgetary statement included herein compares the total of annualized nonappropriated budgets for fiscal years 2004 and 2005 to actual expenditures for the two years ended June 30, 2005.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits.

**APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005**

Investments

The Board of Directors has adopted the State of Oregon's investment policies which restrict investment types and maturities.

Supplies

Supplies are charged as expenditures when purchased.

License Fees

License fees are received monthly for a two-year period based upon anniversary date. Fees are recognized when received.

Compensated Absences

Full-time, permanent employees are granted paid time off benefits of varying amounts to specified maximums depending on tenure with the Board.

Equipment

Equipment with a cost of more than \$5,000 is depreciated over its useful life. Currently, the Board does not have any equipment with a cost basis greater than \$5,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CASH AND INVESTMENTS

The following is the investment balance as of June 30, 2005:

	<u>Fair Value</u>
Certificates of deposit	<u>\$ 400,000</u>

Interest rate risk

The Board currently does not have a formal investment policy that limits investments as a means of managing its exposure to fluctuating interest rates. However, the Board approves all investments on an individual basis and has invested in certificates of deposit in order to reduce interest rate risk as, once the investment is made, the interest rate does not change.

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

Credit risk

State statutes authorize the Appraiser Certification and Licensure Board to invest in general obligations of the U.S. Government and its agencies, certain debt obligations of Oregon, California, Washington and Idaho, bank repurchase agreements, bankers' acceptances, and certain corporate debt obligations, among others.

Concentration of credit risk

All investments of the Board shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), and ORS 294.145 (Prohibited conduct for custodial officer). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this investment policy immediately upon being enacted.

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. As of June 30, 2005, the Board's bank balance was \$481,047. Of this amount, \$181,047 was covered by Federal Depository Insurance. The remaining balance of \$300,000 was covered by a collateral certificate held in the pledging financial institution's trust department or agent, in the Board's name.

EMPLOYEE LEAVE

Vacation leave paid time off is earned monthly, depending upon length of service, with a maximum accumulation of 250 hours for non management and 350 hours for management employees. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based upon current salary rates, was \$5,882 at June 30, 2005.

PENSION PLAN

Oregon Public Employee Retirement System (PERS)

Employees who were plan members before August 29, 2003, participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board (PERB) under the guidelines of Oregon Revised Statutes, Chapter 238. The PERS

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits.

The Board is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate for employees at fiscal year 2005 was 4.71%.

Oregon Public Service Retirement Plan (OPSRP)

The pension program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP). The pension program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. The pension program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than \$200 or the monthly death benefit payable to the beneficiary of a deceased member is less than \$200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The Board is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate for employees at fiscal year 2005 was 8.04%.

The Individual Account Program (IAP)

IAP is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. Covered employees are required by State statute to contribute 6% of their salary to the plan. Current law requires employers that had been paying the member contributions into PERS to pay employee contributions to the IAP until at least December 31, 2005.

The Board contributions to PERS and OPSRP for the two years ended June 30, 2005 was \$32,648, and the amount contributed for the three years ended June 30, 2003 was \$46,887. Total contributions were equal to the required contributions for all five years.

During the biennium, Oregon General Obligation Pension Bonds were issued to fund the States' share of the Unfunded Actuarial Liability and \$2 billion was delivered directly to

APPRAISER CERTIFICATION AND LICENSURE BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

PERS. Over the next 24 years the state will be obligated to make the principal and interest payments on the pension obligation bonds. All benefiting agencies are charged the same rate to pay this debt service, which fluctuated during this biennium. The amount paid by the Board for the two years ended June 30, 2005 was \$11,332.

INSURANCE

Insurance programs are administered for the Board by the Risk Management Division of the Oregon Department of Administrative Services, which provides insurance coverage to all state agencies with a blanket honesty and faithful performance bond, general liability and vehicle liability self-insurance, and self-insurance property damage program.

The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based upon its share of services provided in a prior period.

LEASE COMMITMENT

The Board leases its space under a lease which expires December 31, 2006. Total lease payments for the two years ended June 30, 2005 were \$42,300. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 22,200
2007	11,400
Total	<u>\$ 33,600</u>

**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***

Board of Directors
Appraiser Certification and Licensure Board
1860 Hawthorne Avenue NE, Suite 200
Salem, Oregon 97303

Charles A. Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

We have audited the financial statements of Appraiser Certification and Licensure Board as of and for the two years ended June 30, 2005, and have issued our report thereon dated June 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we have considered Appraiser Certification and Licensure Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might constitute material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Appraiser Certification and Licensure Board's financial statements are free of material misstatement, we performed tests of their 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Appraiser Certification and Licensure Board, in a separate letter dated June 6, 2006.

This report is intended solely for the information and use of Appraiser Certification and Licensure Board, the Governor of the State of Oregon, and Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Merina & Company, LLP
Merina & Company, LLP
West Linn, Oregon
June 6, 2006

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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Auditing to Protect the Public Interest and Improve Oregon Government