

Report No. 2006-23

August 31, 2006



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

State Landscape Contractors Board

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

Contract Auditor: Merina & Company, LLP

State of Oregon

State Landscape Contractors Board

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State



AUDITS DIVISION
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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
State Landscape Contractors Board
235 Union Street NE
Salem, Oregon 97301

This report contains audited financial statements of the State Landscape Contractors 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

**STATE LANDSCAPE CONTRACTORS
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

5499 AMY STREET • WEST LINN, OR 97068

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STATE LANDSCAPE CONTRACTORS BOARD
For the Biennium Ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
State Landscape Contractors Board
235 Union St. NE
Salem, Oregon 97301

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 State Landscape Contractors 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 State Landscape Contractors 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.

Because of inadequacies in the Board's accounting records, we were unable to form an opinion regarding the amount of accounts receivable recorded in the statement of net assets and the balance sheet-governmental fund (stated at \$ 80,510).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had accounts receivable been susceptible to satisfactory audit tests, the financial statements referred to above, present fairly, in all material respects, the financial position of the State Landscape Contractors 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 9, 2006, on our consideration of the State Landscape Contractors Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 9, 2006

STATE LANDSCAPE CONTRACTORS 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	\$ 274,307
Accounts receivable	80,510
Investments	213,023
Equipment, net	<u>3,121</u>
Total assets	<u><u>\$ 570,961</u></u>
 LIABILITIES:	
Accounts payable	\$ 31,887
Compensated absences	<u>10,590</u>
Total liabilities	<u>42,477</u>
 NET ASSETS:	
Investment in equipment, net of related debt	3,121
Unrestricted	<u>525,363</u>
Total net assets	<u>528,484</u>
Total liabilities and net assets	<u><u>\$ 570,961</u></u>

The accompanying notes are an integral part of these financial statements

STATE LANDSCAPE CONTRACTORS 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	\$ 721,639	\$ (721,639)
Total program expenses		<u>(721,639)</u>
GENERAL REVENUES:		
General revenues:		
License fees		769,473
Examination fees		89,177
Civil penalties		180,397
Interest income		7,927
Miscellaneous		646
Total general revenues		<u>1,047,620</u>
Change in net assets		325,981
NET ASSETS, BEGINNING		<u>202,503</u>
NET ASSETS, ENDING		<u><u>\$ 528,484</u></u>

The accompanying notes are an integral part of these financial statements

STATE LANDSCAPE CONTRACTORS 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	\$ 274,307
Accounts receivable	80,510
Investments	<u>213,023</u>
Total assets	<u>\$ 567,840</u>
 LIABILITIES AND FUND BALANCE:	
Accounts payable	\$ 31,887
Compensated absences	<u>10,590</u>
Total liabilities	<u>42,477</u>
 FUND BALANCE:	
Unreserved	<u>525,363</u>
Total fund balance	<u>525,363</u>
Total liabilities and fund balance	<u>\$ 567,840</u>
 RECONCILIATION TO THE STATEMENT OF NET ASSETS	
Total fund balance	\$ 525,363
Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value. The cost of the assets is \$7,802 and the accumulated depreciation is \$4,681.	<u>3,121</u>
Net assets	<u>\$ 528,484</u>

The accompanying notes are an integral part of these financial statements

STATE LANDSCAPE CONTRACTORS 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 fees	\$ 769,473
Examination fees	89,177
Civil penalties	180,397
Interest income	7,927
Miscellaneous	646
	<hr/>
Total revenues	1,047,620
	<hr/>
EXPENDITURES:	
Personal service	404,877
Service and supplies	315,483
	<hr/>
Total expenditures	720,360
	<hr/>
Revenues over (under) expenditures	327,260
	<hr/>
FUND BALANCE, BEGINNING	198,103
	<hr/>
FUND BALANCE, ENDING	<u><u>\$ 525,363</u></u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Excess of revenues over (under) expenditures	\$ 327,260
Capitalized cost of equipment	2,155
Depreciation	(3,434)
	<hr/>
Excess of revenues over expenses	<u><u>\$ 325,981</u></u>

The accompanying notes are an integral part of these financial statements

STATE LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Biennium Ended June 30, 2005

	Biennial Budget		Actual Biennial	Variance Positive (Negative)
	Original	Final		
REVENUES:				
License fees	\$ 709,750	\$ 709,750	\$ 769,473	\$ 59,723
Examination fees	57,560	57,560	89,177	31,617
Civil penalties	37,100	37,100	180,397	143,297
Interest income	1,750	1,750	7,927	6,177
Miscellaneous	-	-	646	646
Total revenues	806,160	806,160	1,047,620	241,460
EXPENDITURES:				
Personal service	384,795	384,795	404,877	(20,082)
Service and supplies	335,379	335,379	315,483	19,896
Total expenditures	720,174	720,174	720,360	(186)
Revenues over (under) expenditures	85,986	85,986	327,260	241,274
FUND BALANCES, BEGINNING	23,865	23,865	198,103	174,238
FUND BALANCES, ENDING	<u>\$ 109,851</u>	<u>\$ 109,851</u>	<u>\$ 525,363</u>	<u>\$ 415,512</u>

The accompanying notes are an integral part of these financial statements

STATE LANDSCAPE CONTRACTORS 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 State Landscape Contractors Board's (the Board) mission is to promote consumer protection, contractor competency, and fair competition in Oregon's landscape contracting industry. The Board prescribes qualifications for the practice of landscape contractors and landscape businesses, sets criteria for the examination of applicants for licensure, and enforcement of the laws and regulations governing the practice. The Board issues licenses to those individuals who do qualify and pass the examination and to those businesses that submit application and meet the requirements for business licensure. The Board has the authority to revoke and refuse to renew licenses, assess civil penalties against unregistered individuals and businesses practicing as landscape contractors or landscaping businesses without authority, and against those licensed landscape contractors and landscaping businesses practicing improperly.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board is a semi-independent agency of the State of Oregon. The Board was created in 1971 first as an advisory committee and then in 1987 changed to a policy board and currently operates under Oregon Revised Statutes (ORS) Chapter 182. The Board consists of seven (5 industry and 2 public) members appointed by the governor for three-year terms. The Board administers a comprehensive examination to applicants for licensure and insures licensed businesses have either an owner or employee who is an individual licensed landscape contractor supervising the landscape work performed by the landscaping business. The Board also promulgates rules, settles disputes between landscaping businesses and consumers through claim process and enforces the landscape contractor statutes in Oregon specifically ORS 671.510 to 671.955.

Pursuant to House Bill 2127, the Board was granted semi-independent status by the Legislature on July 1, 2002.

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 license fees, civil penalties 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

STATE LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

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 budgeting.

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.

Investments

The Board carries its investment in certificates of deposit at cost which approximates fair market value.

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

Equipment

Equipment is stated at cost. Equipment with a cost of more than \$500 is depreciated over its useful life. Depreciation is computed on the straight-line method over the estimated useful

STATE LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

life of five years. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal.

License Fees

Licensee fees are billed monthly for an annual period based upon anniversary date. Fees are recognized as revenue 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.

Accounting 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 are the investment balance as of June 30, 2005:

	Fair Value
Certificates of deposit	\$ 115,000
Bonds	25,000
Annuities	<u>73,023</u>
Total investments	<u>\$ 213,023</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.

Credit risk

State Statutes authorize the State Landscape Contractors Board to invest in general obligations of the U.S. Government and its agencies, certain debt obligations of Oregon,

STATE LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

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 extension 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 \$257,525. Of this deposit, \$200,000 was covered by Federal Depository Insurance. The remaining \$57,525 was covered by a collateral certificate held in the pledging financial institution's trust department or agent, in the Board's name.

Custodial credit risk – investments

For an investment, this 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 investments or collateral securities, if any, that are in the possession of an outside party.

EQUIPMENT

	June 30, 2003	Additions	Deletions	June 30, 2005
Equipment	\$ 5,647	\$ 2,155	\$ -	\$ 7,802
Accumulated depreciation	(1,247)	(3,434)	-	(4,681)
Net fixed assets	\$ 4,400	\$ (1,279)	\$ -	\$ 3,121

STATE LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended 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 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

STATE LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

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 \$27,264, and the amount contributed for the year ended June 30, 2003 was \$11,205. Total contributions were equal to the required contributions for all three 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 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 \$10,755.

EMPLOYEE LEAVE

Vacation leave paid time off is earned monthly, depending upon length of service, with a maximum accumulation of 250 hours for any one employee. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based upon current salary rates, was \$10,590 at June 30, 2005.

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 sub lease agreement with the State Department of Transportation. The lease expires June 30, 2006. Total lease payments for the two years ended June 30, 2005, were \$27,745. Future minimum lease payments for the year ending June 30, 2006 is \$14,040.

**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
State Landscape Contractors Board
235 Union St. NE
Salem, Oregon 97301

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

We have audited the financial statements of State Landscape Contractors Board as of and for the two years ended June 30, 2005, and have issued our report thereon dated June 9, 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 the State Landscape Contractors 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. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the reportable conditions letter dated June 9, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditioned describe above to be material weakness.

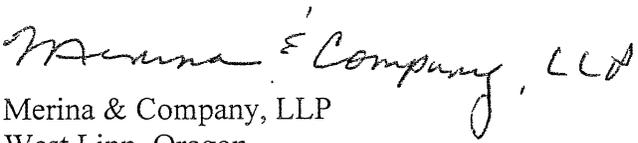
Compliance and Other Matters

As part of obtaining reasonable assurance about whether State Landscape Contractors 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 State Landscape Contractors Board, in a separate letter dated June 9, 2006.

This report is intended solely for the information and use of State Landscape Contractors 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
West Linn, Oregon
June 9, 2006

Reportable Conditions Letter

Board of Directors
State Landscape Contractors Board
235 Union St. NE
Salem, Oregon 97301

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

In planning and performing our audit of the financial statements of State Landscape Contractors Board as of and for the two years ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organizations' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Criteria:

The accounts receivable should be recorded and supported by adequate documentation.

Condition:

Accounts receivable balance could not be supported or subsequently determined due to lack of supporting documentation.

Effect:

Unable to verify balance in accounts receivable as of June 30, 2005 or the associated revenue for the period then ended.

Cause:

The accounting software is not able to provide an audit trail to support the accounts receivable balance at June 30, 2005.

Recommendations:

The Board should implement a policy for recording accounts receivable associated with civil penalties. In addition, the Board should estimate a reasonable amount of expected reduction of civil penalties and input that amount into a contra allowance account.

Response:

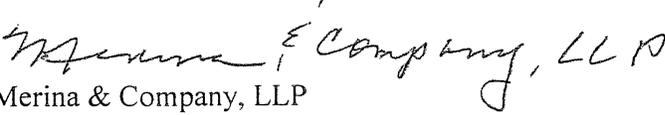
With respect to the Reportable Conditions outlined in the letter drafted on June 9, 2006, the LCB takes exception to the finding that the Accounts Receivable amounts is completely unverifiable and needs to be removed from the financial statements. The only Accounts Receivable the LCB records are those associated with imposed civil penalties pursuant to a final order issued in the case in question. Admittedly the amount of this civil penalty that is collectable is unknown due to the complexity of how civil penalties are not intended to be punitive but to create compliance with the laws and increase the number of entities that are licensed to perform landscape work in Oregon. The

issuance of settlement agreements in which certain conditions must be fulfilled before a civil penalty can be suspended can go on for at least a year and the ability to determine a civil penalty is “non-collectable” can take several years creates an indeterminate amount to assign to an “uncollectible account”. Consequently the amount of actual revenue associated with the LCB Accounts Receivable is a guess at best. However, experience is creating a history of what the percentage could be considered uncollectible in a given year, so to completely “write off” the account receivable is not correct either.

All the receivables are individually tracked in Quick books and every action that is taken, whether it is written off according to the state mandated procedure or the conditions of the settlement agreement are met, thus a credit memo issued, are shown in Quick books.

The LCB has had a lot of “cleanup” to do of the inherited cases that carried over from the previous administration of the LCB, i.e. the CCB. It has and is taking time to make the determination of the status of some of the outstanding civil penalties, but is gradually becoming only those that the LCB has imposed since July 1, 2002. Even those are being actively addressed and followed up on. Therefore, the LCB requests that the Accounts Receivable be reinstated in our financial statement and the LCB will consult with a Certified Public Accountant to determine the best way to handle these accounts in the future.

This report is intended solely for the information and use of State Landscape Contractors 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
West Linn, Oregon
June 9, 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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