

Report No. 2006-28

August 31, 2006



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

Oregon Wine Board

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

Contract Auditor: Merina & Company, LLP

State of Oregon

Oregon Wine 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
Charles A. Hibner
Director

(503) 986-2255
FAX (503) 378-6767
AuditsHotline@state.or.us

Auditing for a Better Oregon

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

Board of Directors
Oregon Wine Board
1200 NW Naito Parkway, Suite 400
Portland, Oregon 97209

This report contains audited financial statements of the Oregon Wine 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

OREGON WINE 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
PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINACPAS.COM

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1
<u>Basic Financial Statements</u>	
Statement of Net Assets	2
Statement of Activities.....	3
Balance Sheet – Governmental Fund.....	4
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	6
<u>Notes to the Basic Financial Statements</u>	7
OTHER REPORTS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12

INDEPENDENT AUDITORS' REPORT

Board of Directors
Oregon Wine Board
1200 NW Naito Parkway, Suite 400
Portland, OR 97209

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 Oregon Wine 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 Oregon Wine 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, 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 respective financial position of the Oregon Wine 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 May 19, 2006, on our consideration of the Oregon Wine Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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
May 19, 2006

Oregon Wine 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	\$ 120,010
Accounts receivable	<u>11,813</u>
Total assets	<u>\$ 131,823</u>
 LIABILITIES:	
Accounts payable	\$ 15,822
Deferred revenue	<u>13,500</u>
Total liabilities	<u>29,322</u>
 NET ASSETS:	
Unrestricted	<u>102,501</u>
Total net assets	<u>102,501</u>
Total liabilities and net assets	<u>\$ 131,823</u>

The accompanying notes are an integral part of these financial statements

Oregon Wine Board
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF ACTIVITIES
For the Biennium Ended June 30, 2005

	<u>Expenses</u>	Net Revenue (Expenses) and Changes in Net Assets
EXPENSES:		
Governmental activities:		
Assessment	\$ 1,257,570	\$ (1,257,570)
Total program expenses		<u>(1,257,570)</u>
GENERAL REVENUES AND TRANSFERS:		
General revenues:		
Assessment fees		1,233,681
Interest income		1,093
Other Income		<u>8,205</u>
Total general revenues and transfers		<u>1,242,979</u>
Change in net assets		(14,591)
NET ASSETS, BEGINNING		<u>117,092</u>
NET ASSETS, ENDING		<u><u>\$ 102,501</u></u>

The accompanying notes are an integral part of these financial statements

Oregon Wine Board
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2005

	Total Governmental Fund
	<u> </u>
ASSETS:	
Cash and cash equivalents	\$ 120,010
Accounts receivable	<u>11,813</u>
Total assets	<u><u>\$ 131,823</u></u>
LIABILITIES AND FUND BALANCE:	
Accounts payable	\$ 15,822
Deferred revenue	<u>13,500</u>
Total liabilities	<u>29,322</u>
FUND BALANCE:	
Unreserved	<u>102,501</u>
Total fund balance	<u>102,501</u>
Total liabilities and fund balance	<u><u>\$ 131,823</u></u>

The accompanying notes are an integral part of these financial statements

Oregon Wine 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:	
Assessment Fees	\$ 1,233,681
Interest Income	1,093
Other Income	8,205
	<hr/>
Total revenues	1,242,979
	<hr/>
EXPENDITURES:	
Personal service	513,608
Service and supplies	237,892
Promotion and education	506,070
	<hr/>
Total expenditures	1,257,570
	<hr/>
Revenues over (under) expenditures	(14,591)
FUND BALANCE, BEGINNING	117,092
	<hr/>
FUND BALANCE, ENDING	\$ 102,501
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

Oregon Wine 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	Actual			Variance
	Budget				Positive
	Original &	FY 2004	FY 2005	Biennial	(Negative)
	Final				
REVENUES:					
Assessment Fees	\$ 1,490,000	\$ 501,343	\$ 732,338	\$ 1,233,681	\$ (256,319)
Interest Income	10,000	57	1,036	1,093	(8,907)
Other Income	1,200	2,877	5,328	8,205	7,005
Total revenues	1,501,200	504,277	738,702	1,242,979	(258,221)
EXPENDITURES:					
Personal service	494,600	248,035	265,573	513,608	(19,008)
Service and supplies	357,269	138,262	99,630	237,892	119,377
Promotion and education	501,400	372,191	133,879	506,070	(4,670)
Total expenditures	1,353,269	758,488	499,082	1,257,570	95,699
Revenues over (under) expenditures	147,931	(254,211)	239,620	(14,591)	(162,522)
FUND BALANCES, BEGINNING	-	117,092	(137,119)	117,092	117,092
FUND BALANCES, ENDING	\$ 147,931	\$ (137,119)	\$ 102,501	\$ 102,501	\$ (45,430)

The accompanying notes are an integral part of these financial statements

NATURE OF THE ORGANIZATION

The Oregon Wine Board (the Board) shall operate for the purpose of supporting enological, viticultural, and economic research to develop sustainable business practices for wine grape growing and wine making within Oregon and supporting the promotion of Oregon wine grape growing and wine making industries. The Board allocates funds and awards grants that encourage coordinated cost-effective projects that are integrated to implement the Board's objectives for the development of world-class wine grape growing and wine making within Oregon.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented in conformity with generally accepted accounting principles (GAAP) applicable to state governments as prescribed by the Governmental Accounting Standards Board (GASB).

Reporting Entity

The Oregon Wine Board is a semi-independent agency of the State of Oregon. The Board was established under Oregon House Bill 3442 and operates under Oregon Revised Statutes (ORS) Chapter 182.456 to 182.472, 576.750 to 576.765, and other Amendments to Oregon Revised Statutes. The Board is comprised of nine members appointed by the Governor with staggered 3 year terms for each member. Among other qualifications, Board members must be actively engaged in wine grape growing or wine making have a demonstrated interest in the positive development of the Oregon wine industry.

Basis of Presentation

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. The primary sources of revenue consist of two assessment fees. An assessment of \$25 per ton is imposed upon the vinifera grapes crushed in a winery for making wine. An assessment of \$0.021 per gallon is imposed on wine which is made from any other agricultural products. In addition, a tax of \$0.67 per gallon (\$0.77 per gallon for wines containing more than 14 percent alcohol by volume) is imposed upon the privilege of engaging in business as a manufacturer or as an importing distributor of wines. Of this tax, \$0.02 per gallon shall be paid into the account established by the Oregon Wine Board. All assessment fees are collected by the Oregon Liquor Control Commission on behalf of the Oregon Wine Board.

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.

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

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 assessment 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 an annual basis. The Board may adopt or modify a budget only after holding a public hearing and must give notice of budget hearings to all constituents. Under Section 11 of House Bill 3442, the Board shall prepare and submit annual plans and a budget recommended by the Board for promotion and for research during the next fiscal year. The Board shall adopt rules specifying the procedures, criteria, and timelines for the preparation and approval of the annual plans and budget for promotion and for research. The Director of the Oregon Economic and Community Development Department shall review the annual plans and budget submitted under this section. In reviewing the annual plans and budget, the Director shall consider whether the information supplied by the Board is factual and consistent with ORS 576.750 to 576.765 and the positive development of the Oregon wine grape growing and wine making industries. The Director shall either approve the annual plans and budget prior to the commencement of the next fiscal year or disapprove and return the annual plans and budget to the Board with conditions necessary for approval prior to the commencement of the next fiscal year. In reviewing the annual plans and budget, the Director may consult with and receive coordinated support from the Oregon State Department of Agriculture, the Oregon Tourism Commission, the Department of Higher Education, the Department of Community Colleges and Workforce Development, and the Oregon Liquor Control Commission.

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.

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

Receivables

The Board considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to an expenditure when that determination is made.

Supplies

Supplies are charged as expenditures when purchased.

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.

Deferred Revenue

Participation fees for special events received in the fiscal year prior to the one in which the event takes place are recorded as deferred revenue.

Accrued Compensated Absences

Full-time, permanent employees are granted paid time off benefits of varying amounts up to specified maximums depending on tenure and position with the Board. Paid time off is vested when earned and is recorded as an expenditure when incurred. Paid time off does not accrue after the end of each year. At the end of each year, any unused paid time off is rolled into a Catastrophic Sick Reserve available for employee use. Catastrophic Sick Reserve is not convertible to pay upon termination.

Fund Balance

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures.

Assessment Fees

Assessment fees have been recorded on the cash basis of accounting due to the uncertainty of collectibility.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 estimated.

CASH AND INVESTMENTS

Credit risk

State statutes authorize the Oregon Wine 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, when made, shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.035 (Restriction on investments), 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, there 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, securities 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 \$106,269. Of this amount, \$100,000 was covered by Federal Depository Insurance. The remaining balance of \$6,269 was uninsured and uncollateralized.

EMPLOYEE LEAVE

Paid time off is earned at a monthly rate of 13.33 to 20 hours per month. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based upon current salary rates, was \$0 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.

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

LEASE COMMITMENT

The Board leases its space from Albers Mill Building Partnership under an operating lease set to expire August 31, 2007. This lease was renewed in October 2005 and expires on September 30, 2010. Total lease payments for the two years ended June 30, 2005, were \$56,810. Future minimum lease payments for the year ending June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 24,912
2007	25,604
2008	26,296
2009	26,988
2010	<u>27,680</u>
Total	<u>\$ 131,480</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
Oregon Wine Board
1200 NW Naito Parkway, Suite 400
Portland, OR 97209

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

We have audited the accompanying financial statements of Oregon Wine Board as of and for the two years ended June 30, 2005, and have issued our report thereon dated May 19, 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 Oregon Wine 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 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. 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 Oregon Wine Board's financial statements are free of 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. Monies in excess of the Federal Deposit Insurance Corporation (FDIC) limit were not secured at times during the two year period in accordance with ORS 295.

We noted certain matters that we reported to management of Oregon Wine Board, in a separate letter dated May 19, 2006.

This report is intended solely for the information and use of Oregon Wine 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
May 19, 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:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Auditing to Protect the Public Interest and Improve Oregon Government