

Report No. 2008-09

April 9, 2008



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

Board of Massage Therapists

A Semi-Independent Agency

For the Biennium Ended June 30, 2007

Contract Auditor: Merina & Company, LLP

Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State



Audits Division

Charles A. Hibner, CPA
Director

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Board of Directors
Oregon Board of Massage Therapists
748 Hawthorne Avenue NE
Salem, Oregon 97301

This report presents audited financial statements of the Oregon Board of Massage Therapists, a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2007, 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.

Sincerely,
OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "C.A. Hibner", with a long, sweeping underline.

Charles A. Hibner, CPA
Director

**OREGON BOARD OF MASSAGE
THERAPISTS**

FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA
For the Biennium Ended
June 30, 2007
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

STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
For the Biennium Ended June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Board of Massage Therapists
748 Hawthorne Ave NE
Salem, OR 97301

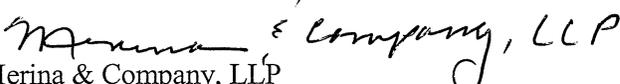
Charles Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Oregon Board of Massage Therapists, a semi-independent agency of the State of Oregon, as of and for the two years ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Oregon Board of Massage Therapists' management. Our responsibility is to express opinions 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of the Oregon Board of Massage Therapists, as of June 30, 2007, and the 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 January 25, 2008, on our consideration of the Oregon Board of Massage Therapists' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing 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
January 25, 2008

STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 358,106
Receivables	4,415
Equipment, net	<u>45,657</u>
Total assets	<u><u>\$ 408,178</u></u>
LIABILITIES:	
Accounts payable	\$ 3,542
Compensated absences	<u>20,639</u>
Total liabilities	<u>24,181</u>
NET ASSETS:	
Investment in equipment, net of related debt	45,657
Unrestricted	<u>338,340</u>
Total net assets	<u>383,997</u>
Total liabilities and net assets	<u><u>\$ 408,178</u></u>

STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF ACTIVITIES
For the Biennium Ended June 30, 2007

	<u>Expenses</u>	Net Revenue (Expenses) and Changes in Net Assets
EXPENSES:		
Governmental activities:		
Licensing	\$ 1,063,056	<u>\$ (1,063,056)</u>
Total program expenses		<u>(1,063,056)</u>
GENERAL REVENUES:		
General revenues:		
Licenses and fees		1,088,485
Civil penalties		50,137
Interest income		<u>518</u>
Total general revenues		<u>1,139,140</u>
Change in net assets		76,084
NET ASSETS, BEGINNING		<u>307,913</u>
NET ASSETS, ENDING		<u><u>\$ 383,997</u></u>

The accompanying notes are an integral part of these financial statements

STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2007

	Total Governmental Fund
ASSETS:	
Cash and cash equivalents	\$ 358,106
Receivables	<u>4,415</u>
Total assets	<u>\$ 362,521</u>
LIABILITIES AND FUND BALANCE:	
Accounts payable	<u>\$ 3,542</u>
Total liabilities	<u>3,542</u>
FUND BALANCE:	
Unreserved	358,979
Total fund balance	<u>358,979</u>
Total liabilities and fund balance	<u>\$ 362,521</u>

Amounts reported in the statement of net assets are different because:

Total fund balance	\$ 358,979
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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 \$54,789 and the accumulated depreciation is \$9,132.	45,657
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Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(20,639)</u>
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Net assets of governmental activities	<u>\$ 383,997</u>
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STATE BOARD OF MASSAGE THERAPISTS
(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, 2007

	Total Governmental Fund
REVENUES:	
License and fees	\$ 1,088,485
Civil penalties	50,137
Interest income	518
	<hr/>
Total revenues	1,139,140
	<hr/>
EXPENDITURES:	
Personal services	576,151
Service and supplies	511,923
	<hr/>
Total expenditures	1,088,074
	<hr/>
Revenues over (under) expenditures	51,066
FUND BALANCE, BEGINNING	307,913
	<hr/>
FUND BALANCE, ENDING	\$ 358,979
	<hr/> <hr/>
 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	\$ 51,066
Change in compensated absences	(20,639)
Capitalized cost of equipment	54,789
Depreciation	(9,132)
	<hr/>
Change in net assets	\$ 76,084
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

STATE BOARD OF MASSAGE THERAPISTS
(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, 2007

	Biennial Budget		Actual			Variance
	Original	Final	FY 2006	FY 2007	Biennial	Positive (Negative)
REVENUES:						
License and fees	\$ 823,297	\$ 1,083,378	\$ 456,889	\$ 631,596	\$ 1,088,485	\$ 5,107
Civil penalties	40,000	50,000	16,826	33,311	50,137	137
Interest income	400	500	227	291	518	18
Total revenues	863,697	1,133,878	473,942	665,198	1,139,140	5,262
EXPENDITURES:						
Personal services	574,718	592,718	263,675	312,476	576,151	16,567
Service and supplies	357,050	472,159	225,251	286,672	511,923	(39,764)
Total expenditures	931,768	1,064,877	488,926	599,148	1,088,074	(23,197)
Revenues over (under) expenditures	(68,071)	69,001	(14,984)	66,050	51,066	(17,935)
FUND BALANCES, BEGINNING	307,913	307,913	307,913	292,929	307,913	-
FUND BALANCES, ENDING	<u>\$ 239,842</u>	<u>\$ 376,914</u>	<u>\$ 292,929</u>	<u>\$ 358,979</u>	<u>\$ 358,979</u>	<u>\$ (17,935)</u>

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007**

NATURE OF THE ORGANIZATION

The State Board of Massage Therapists' (the Board) mission is to protect the people of the State of Oregon from the dangers of unqualified and improper practice of professional massage therapy. The Board prescribes qualifications for the practice of professional massage therapy, setting standards for the examination of applicants for licensure, continuing education, and enforcement of the laws and regulations governing the practice of professional massage therapy. The Board issues licenses to those who do qualify, and has the authority to revoke licenses and assess civil penalties against unregistered individuals practicing professional massage therapy without authority and against those licensed professionals practicing improperly.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State Board of Massage Therapists is a semi-independent agency of the State of Oregon. The Board operates under Oregon Revised Statutes (ORS) Chapter 687. The Board consists of seven members appointed by the governor for four-year terms. Four members are licensed massage therapists, and three members are public citizens. 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 massage therapy in Oregon.

Pursuant to Oregon Senate Bill 1127 adopted in 1999, the Board was granted semi-independent status by the Legislature.

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. 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 earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007**

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.

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 non-appropriated budgets. The budgetary statement included herein compares the total of annualized non-appropriated budgets for fiscal years 2006 and 2007 to actual expenditures for the two years ended June 30, 2007.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits.

Supplies

Supplies are charged as expenditures when purchased.

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. Depreciation is computed on the straight-line method over the estimated useful life. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007**

Licensee Fees

Licensee fees have been recorded on the cash basis of accounting due to the uncertainty of collections.

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

Credit risk

State Statutes authorize the State Board of Massage Therapists 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, 2007, the Board's bank balance was \$382,704. Of this amount, \$100,000 was covered by Federal Depository Insurance. The remaining balance of \$282,704 was covered by a collateral certificate held in the pledging financial institution's trust department or agent, in the Board's name.

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007**

EQUIPMENT

	June 30, 2005	Additions	Deletions	June 30, 2007
Database	\$ -	\$ 54,789	\$ -	\$ 54,789
Accumulated depreciation	-	(9,132)	-	(9,132)
Net fixed assets	\$ -	\$ 45,657	\$ -	\$ 45,657

PENSION PLAN

Employee Retirement Plan

Board employees hired after August 28, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) which is a part of the Public Employees Retirement System (PERS). Employees hired on, or before, this date are PERS members. All Board employees who work over 600 hours per year are eligible to participate in the plans after completing six months of employment with a PERS/OPSRP covered employer. Both plans require an actuarially determined contribution from the employer and an employee contribution of 6 percent of covered salary. The Board pays the employee's contribution as allowed by law. Both plans are administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238 and 238A. Both plans provide retirement benefits and cost-of-living adjustments, as well as disability, post-employment healthcare, and death benefits to plan members and beneficiaries. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained by writing to the Oregon Public Employee Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Board contributions for fiscal year 2007 equaled what was required.

Defined Benefit Plans

Oregon Public Service Retirement Plan (OPSRP) The Pension Program of OPSRP is a cost-sharing multiple-employer defined benefit pension plan. The Board is required by statute to contribute actuarially computed amounts as determined by the PERS Board. Rates are subject to change as a result of actuarial valuations. The rate for a covered employee's salary for fiscal year 2007 was 4.43 percent.

Public Employees Retirement System (PERS) PERS plan members also participate in a cost-sharing multiple-employer defined benefit pension plan. The Board is required by statute to contribute actuarially computed amounts as determined by the PERS Board. The rates are subject to change as a result of subsequent actuarial valuations. During fiscal year 2007, the Board contributed 8.69 percent of covered salary

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007**

Defined Contribution

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the PERS Board. It is applicable to non-PERS members as of August 29, 2003, and applicable to active PERS members as of January 1, 2004. Contributions made prior to establishment of the IAP remain in the members' PERS accounts.

Board retirement contributions for the year ending June 30, 2007, were approximately \$23,039. Contributions for fiscal year 2006 were approximately \$18,200 and \$24,990 for fiscal year 2005.

Other Charges

The Board is also required to pay a share of the debt service requirements for a \$2 billion bond issued to reduce the unfunded liability of PERS. PERS began collection of the amounts in May 2004. The Board contributions for debt service requirements for the year ending June 30, 2007, were approximately \$12,263. For fiscal year 2006, contributions were approximately \$9,529.

EMPLOYEE LEAVE

Represented Employees (SEIU)

Sick leave is earned at the rate of eight hours per month with no maximum limit. Accumulated sick leave at June 30, 2007 can be used in case of an employee's extended illness or injury. When the employee retires, any sick leave accrual terminates and no compensation made for such hours. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Vacation time is earned, subject to a maximum accumulation of 325 hours, at a rate of eight hours per month to eighteen hours per month depending on length of service. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based on current salary rates, was \$4,081 at June 30, 2007.

Unrepresented Employees

Paid time off (PTO) is earned in lieu of sick and vacation time for unrepresented employees per the Personnel policy adopted July 2005. Accumulations range from 16 hours per month to 23.3 hours per month based on length of service and accrues to a maximum of 60 days. Hours in excess of the 60 day maximum roll over into a catastrophic sick leave reserve account which can be used for catastrophic illness. All Catastrophic Sick Reserve (CSR) time will cease on the date of an employee's termination. No compensation will be made for accumulated CSR time at termination. Paid time off is vested when earned and recorded as

**STATE BOARD OF MASSAGE THERAPISTS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007**

an expenditure. Accumulated PTO for unrepresented employees, based on current salary rates was \$16,558 at June 30, 2007.

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 building space from Adair Properties, LLC under a seven year lease expiring on June 31, 2010. Total lease payments for the year ended June 30, 2007 were \$22,649. The lease specifies a base rent of \$2,006 per month, increased annually for the increase in the Portland-Salem area CPI (with the amount of increase capped at 4% per year). Minimum payments under the lease for the next three years are as follows

<u>Year Ended June 30</u>	<u>Amounts</u>
2008	25,350
2009	26,009
2010	<u>26,685</u>
Total	<u>\$ 78,044</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 Board of Massage Therapists
748 Hawthorne Ave NE
Salem, Oregon 97301

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

We have audited the financial statements of the governmental activities and the special revenue fund of the Oregon Board of Massage Therapists, as of and for the two years ended June 30, 2007, which collectively comprise the Oregon Board of Massage Therapists' basic financial statements and have issued our report thereon dated January 25, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon Board of Massage Therapists' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon Board of Massage Therapists' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Board of Massage Therapists' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oregon Board of Massage Therapists' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Oregon Board of Massage Therapists' financial statements that is more than inconsequential will not be prevented or detected by the Oregon Board of Massage Therapists' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oregon Board of Massage Therapists' internal control.

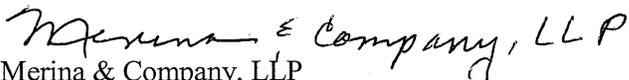
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Board of Massage Therapists' 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Oregon Board of Massage Therapists, in a separate letter dated January 30, 2008.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, the Governor of the State of Oregon and the 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
January 25, 2008

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