

Report No. 2008-13

April 9, 2008



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

Oregon Tourism Commission

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

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

Board of Commissioners
Oregon Tourism Commission
670 Hawthorne Avenue SE, Suite 240
Salem, Oregon 97301

This report presents audited financial statements of the Oregon Tourism Commission, 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

Charles A. Hibner, CPA
Director

OREGON TOURISM COMMISSION

FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA

For the Biennium Ended

June 30, 2007

with

Independent Auditors' Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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OREGON TOURISM COMMISSION
For the Biennium Ended June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Oregon Tourism Commission
670 Hawthorne Ave SE, Suite 240
Salem, OR 97301

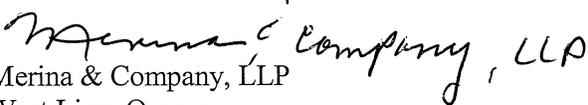
Charles Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Oregon Tourism Commission, 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 Tourism Commission's 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 Tourism Commission, 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 15, 2008, on our consideration of the Oregon Tourism Commission's 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 15, 2008

OREGON TOURISM COMMISSION
(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	\$ 2,409,230
Accounts receivable	390,832
Capital assets, net	218,906
Other assets	<u>19,875</u>
Total assets	<u><u>\$ 3,038,843</u></u>
LIABILITIES:	
Accounts payable	\$ 594,494
Accrued expenses	32,119
Compensated absences	<u>73,738</u>
Total liabilities	<u>700,351</u>
NET ASSETS:	
Investment in capital assets, net of related debt	218,906
Unrestricted	<u>2,119,586</u>
Total net assets	<u>2,338,492</u>
Total liabilities and net assets	<u><u>\$ 3,038,843</u></u>

The accompanying notes are an integral part of these financial statements

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF ACTIVITIES
For the Biennium Ended June 30, 2007

	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
EXPENSES:		
Governmental activities:		
General government	<u>\$ 20,859,377</u>	<u>\$ (20,859,377)</u>
Total program expenses		<u>(20,859,377)</u>
GENERAL REVENUES:		
General revenues:		
Lodging tax		20,171,626
Grants		252,494
Interest income		49,948
Miscellaneous		<u>18,484</u>
Total general revenues		<u>20,492,552</u>
Change in net assets		(366,825)
NET ASSETS, BEGINNING		<u>2,705,317</u>
NET ASSETS, ENDING		<u><u>\$ 2,338,492</u></u>

The accompanying notes are an integral part of these financial statements

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2007

	Total Governmental Funds
ASSETS:	
Cash and cash equivalents	\$ 2,409,230
Accounts receivable	390,832
Other assets	19,875
	<hr/>
Total assets	\$ 2,819,937
	<hr/>
LIABILITIES AND FUND BALANCE:	
Accounts payable	\$ 594,494
Accrued payroll liabilities	32,119
	<hr/>
Total liabilities	626,613
	<hr/>
FUND BALANCE:	
Unreserved	2,193,324
	<hr/>
Total fund balance	2,193,324
	<hr/>
Total liabilities and fund balance	\$ 2,819,937
	<hr/>
RECONCILIATION TO THE STATEMENT OF NET ASSETS	
Total fund balance	\$ 2,193,324
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(73,738)
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 \$345,519 and the accumulated depreciation is \$126,613.	218,906
	<hr/>
Net assets	\$ 2,338,492
	<hr/>

The accompanying notes are an integral part of these financial statements

OREGON TOURISM COMMISSION
(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:	
Lodging tax	\$ 20,171,626
Grants	252,494
Interest	49,948
Miscellaneous	18,484
	<hr/>
Total revenues	20,492,552
	<hr/>
EXPENDITURES:	
Personal service	3,003,487
Service and supplies	17,669,417
Capital outlay	121,517
	<hr/>
Total expenditures	20,794,421
	<hr/>
Revenues over (under) expenditures	(301,869)
	<hr/>
Net change in fund balance	(301,869)
	<hr/>
FUND BALANCE, BEGINNING	2,495,193
	<hr/>
FUND BALANCE, ENDING	<u>\$ 2,193,324</u>
	<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	\$ (301,869)
Change in compensated absences	(73,738)
	<hr/>
The statement of revenues, expenditures, and changes if fund balances report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	
Current biennium depreciation	(19,571)
Current biennium capital asset acquisitions	28,353
	<hr/>
Change in net assets	<u>\$ (366,825)</u>

The accompanying notes are an integral part of these financial statements

OREGON TOURISM COMMISSION
(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	Actual			Variance
	Budget Original & Final	FY 2006	FY 2007	Biennial	Positive (Negative)
REVENUES:					
Lodging tax	\$ 19,108,037	\$ 9,348,359	\$ 10,823,267	\$ 20,171,626	\$ 1,063,589
Grants	-	156,572	95,922	252,494	252,494
Interest	-	21,388	28,560	49,948	49,948
Miscellaneous	-	9,030	9,454	18,484	18,484
Total revenues	19,108,037	9,535,349	10,957,203	20,492,552	1,384,515
EXPENDITURES:					
Personal service	3,590,564	1,297,227	1,706,260	3,003,487	587,077
Service and supplies	19,581,690	8,189,567	9,479,850	17,669,417	1,912,273
Capital outlay	-	-	121,517	121,517	(121,517)
Total expenditures	23,172,254	9,486,794	11,307,627	20,794,421	2,377,833
Revenues over (under) expenditures	(4,064,217)	48,555	(350,424)	(301,869)	3,762,348
Net changes in fund balances	(4,064,217)	48,555	(350,424)	(301,869)	3,762,348
FUND BALANCES, BEGINNING	4,311,755	2,495,193	2,543,748	2,495,193	(1,816,562)
FUND BALANCES, ENDING	<u>\$ 247,538</u>	<u>\$ 2,543,748</u>	<u>\$ 2,193,324</u>	<u>\$ 2,193,324</u>	<u>\$ 1,945,786</u>

The accompanying notes are an integral part of these financial statements

NATURE OF THE ORGANIZATION

The Oregon Tourism Commission (the Commission) was formed by the Oregon Legislature in 2003. The Commission's mission is to encourage economic growth and to enhance the quality of life in Oregon through a strengthened economic impact of tourism throughout the state.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Oregon Tourism Commission is a semi-independent agency of the State of Oregon. The commission consists of nine members appointed by the governor for four-year terms. Five commissioners represent the lodging industry, two commissioners represent tourism at large, and two commissioners are public citizens.

Pursuant to Oregon House Bill 2267 adopted on 11-27-03 the Commission was granted 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 Commission are organized on the basis of a special revenue fund. Revenues are received from a 1% statewide transient lodging tax.

Government-wide Statements

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

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. Revenues are available when they are transferred from the Department of Revenue 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.

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

Budget

The Commission is required to adopt budgets on a biennial basis. The Commission may adopt or modify a budget only after holding a public hearing. The Commission 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 Commission'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 Commission 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

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with an original maturity of three months or less from the date of acquisition.

Investments

The Commission has adopted the State of Oregon's investment policies which restrict investment types and maturities. The Commission had no investments as of June 30, 2007.

Supplies

Supplies are charged as expenditures when purchased.

Compensated Absences

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

Equipment

Equipment with a cost of more than \$1,000 is depreciated over its useful life. Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Leasehold improvements	Lease term
Computer hardware	3 - 5
Computer software	2 - 3
Office equipment	5
Furniture	10

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

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

Interest Rate Risk

The Commission currently does not have a formal investment policy that limits investments as a means of managing its exposure to fluctuating interest rates. However, the Commission approves all investments of an individual basis and has set aside money in a money market account at Bank of America which is categorized as a reserve fund for cash flow purposes.

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 Commission's bank balance was \$2,485,739. Of this amount, \$200,000 was covered by Federal Depository Insurance. Balances of \$1,356,960 were covered by a collateral certificate held in the pledging financial institution's trust department or agent, in the Commission's name. The remaining balance of \$928,779 was uninsured and uncollateralized at June 30, 2007.

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

Capital Assets

Capital asset activity for the biennium ended June 30, 2007 was as follows:

Primary Government:	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, being depreciated:				
Buildings and improvements	\$ 317,166	\$ -	\$ -	\$ 317,166
Computer hardware	-	28,353	-	28,353
Total capital assets, being depreciated	317,166	28,353	-	345,519
Less accumulated depreciation for:				
Buildings and improvements	(107,042)	(15,858)	-	(122,900)
Motor vehicles and equipment	-	(3,713)	-	(3,713)
Total accumulated depreciation	(107,042)	(19,571)	-	(126,613)
Total capital assets, being depreciated, net	\$ 210,124	\$ 8,782	\$ -	218,906

Depreciation expense for the biennium ended June 30, 2007 was \$19,571, all of which was charged to governmental activities.

PENSION PLAN

Commission 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 Commission 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 Commission 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

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

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.

The Commission's contributions for the biennium ended June 30, 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 Commission 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 8.04 percent.

Public Employees Retirement System (PERS): PERS plan members also participate in a cost-sharing multiple-employer defined benefit pension plan. The Commission 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 Commission contributed 12.30 percent of covered salary

Defined Contribution

Individual Account Program (IAP): 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. Covered employees are required by State statute to contribute 6% of their salary to the IAP. The Commission paid the amounts for the employees' contributions for the biennium ending June 30, 2007.

Total pension expense for the Commission was \$118,468 for the year ended June 30, 2007; \$79,856 for the year ended June 30, 2006; and \$50,624 for the year ended June 30, 2005.

Other Charges

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 amounts paid by the Board were \$66,647 for the year ended June 30, 2007; \$45,736 for the year ended June 30, 2006, and \$29,813 for the year ended June 30, 2005.

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

EMPLOYEE LEAVE

Vacation leave is earned monthly, subject to a maximum accumulation of 250 to 350 hours depending on employee classification. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based upon current salary rates was \$73,738 at June 30, 2007.

INSURANCE

Insurance programs are administered for the Commission 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 Commission leases its space under a lease which expires June 30, 2012. Total lease payments for the two years ended June 30, 2007 were \$346,684. Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2008	\$226,272
2009	\$235,020
2010	\$244,080
2011	\$253,524
2012	\$263,280

**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 Commissioners
Oregon Tourism Commission
670 Hawthorne Ave SE, Suite 240
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 Tourism Commission, as of and for the two years ended June 30, 2007, which collectively comprise the Oregon Tourism Commission's basic financial statements and have issued our report thereon dated January 15, 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 Tourism Commission's 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 Tourism Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Tourism Commission's 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 Tourism Commission's 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 Tourism Commission's financial statements that is more than inconsequential will not be prevented or detected by the Oregon Tourism Commission's internal control.

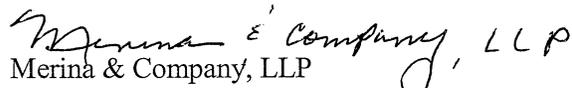
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oregon Tourism Commission's internal control. Our consideration 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 Tourism Commission'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 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 Tourism Commission, in a separate letter dated February 5, 2008.

This report is intended solely for the information and use of management, the audit committee, Board of Commissioners, 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 15, 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>

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