

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



State of Oregon

Landscape Contractors Board

A Semi-Independent Agency

For the Biennium Ended June 30, 2009

Contract Auditor: Moss Adams LLP

2010-06
January 2010

STATE OF OREGON
LANDSCAPE CONTRACTORS BOARD
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
(With Supplemental Information)
JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Oregon Landscape Contractors Board

We have audited the accompanying financial statements of the governmental activities and the general fund of the Oregon Landscape Contractors Board (Board), a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Oregon Landscape Contractors Board'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 and changes in financial position of the governmental activities and the general fund of the Oregon Landscape Contractors Board, as of June 30, 2009, and for the biennium then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12, net assets as of July 1, 2007 have been restated to recognize deferred revenue related to civil penalties of June 30, 2007.

The Oregon Landscape Contractors Board has not presented management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America have determined is necessary to supplement, but is not required, to be part of the basic financial statements. The budgetary comparison information on page 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2010 on our consideration of the Oregon Landscape Contractors Board'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.



Eugene, Oregon
January 12, 2010

OREGON LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET – GENERAL FUND / STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>General Fund</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Assets</u>
ASSETS:			
Cash and cash equivalents	\$ 61,858	\$ -	\$ 61,858
Investments	345,914	-	345,914
Receivables, net	36,314	-	36,314
Equipment, net	-	5,234	5,234
Total assets	<u>\$ 444,086</u>	<u>\$ 5,234</u>	<u>\$ 449,320</u>
LIABILITIES			
Accounts payable	\$ 18,176	\$ -	\$ 18,176
Compensated absences	-	39,459	39,459
Deferred revenue	36,314	(36,314)	-
Total liabilities	<u>54,490</u>	<u>3,145</u>	<u>57,635</u>
FUND BALANCE			
Unreserved	<u>389,596</u>	<u>(389,596)</u>	<u>-</u>
Total fund balance	<u>389,596</u>	<u>(389,596)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 444,086</u>		
NET ASSETS			
Investment in capital assets, net of related debt		5,234	5,234
Unrestricted		<u>386,451</u>	<u>386,451</u>
Total net assets		<u>\$ 391,685</u>	<u>\$ 391,685</u>

OREGON LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE / STATEMENT OF ACTIVITIES
FOR THE BIENNIUM ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities</u>
REVENUES			
Licenses and fees	\$ 888,933	\$ -	\$ 888,933
Examination fees	70,825	-	70,825
Civil penalties	216,957	(124,110)	92,847
Interest income	29,250	-	29,250
Other income	95	-	95
	<u>1,206,060</u>	<u>(124,110)</u>	<u>1,081,950</u>
EXPENDITURES / EXPENSES			
Personal service	\$ 912,126	\$ (16,438)	\$ 895,688
Service and supplies	455,293	4,778	460,071
Capital outlay	768	(768)	-
	<u>1,368,187</u>	<u>(12,428)</u>	<u>1,355,759</u>
Excess of revenues over (under) expenditures	<u>(162,127)</u>	<u>(111,682)</u>	<u>(273,809)</u>
CHANGE IN FUND BALANCE/NET ASSETS	<u>\$ (162,127)</u>	<u>\$ (111,682)</u>	<u>\$ (273,809)</u>
NET CHANGE IN FUND BALANCE/NET ASSETS			
Fund balance /Net assets - June 30, 2007, as previously reported	\$ 712,147	\$ (46,653)	\$ 665,494
Prior period adjustment (Note 12)	(160,424)	160,424	-
Restated fund balance / Net assets - June 30, 2007	<u>551,723</u>	<u>113,771</u>	<u>665,494</u>
Fund balance /Net assets - June 30, 2009	<u>\$ 389,596</u>	<u>\$ 2,089</u>	<u>\$ 391,685</u>

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 1 - NATURE OF THE ORGANIZATION

The Oregon 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 construction professionals and landscape contracting businesses, sets criteria for the examination of applicants for licensure, administers a dispute resolution process to settle disputes between licensed landscape contracting businesses and consumers, administers a continuing education program for the renewal of landscape construction professional licenses, and enforcement of the laws and regulations governing the practice. The Board issues licenses to the individuals who 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 unlicensed individuals and businesses practicing as landscape construction professionals or landscape contracting businesses without authority, and against those licensed landscape construction professionals and landscape contracting businesses practicing improperly.

NOTE 2 - 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. In 2007 the board received the statutory ability to require landscape contracting businesses formed after January 1, 2008 that are not owned by a licensed landscape construction professional to have the owner or a designated full time employee to take the Owner/Managing Employee course and pass the Owner/Managing Examination to provide a level of competency in business practices for landscape contracting businesses. The Board also promulgates rules, settles disputes between landscape contracting businesses and consumers through claim process and enforces the relevant industry 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 - 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 governmental fund, consisting of one general fund.

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 non-appropriated budgets. The budgetary statement included as *Required Supplemental Information*, compares the total of annualized non-appropriated budget to actual expenditures for the biennium ended June 30 2009.

Fund balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific future use. Fund balance reported as of June 30, 2009 was unreserved.

Net assets - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Board or through external restriction imposed by creditors, grantors, laws, or regulation of other governments. Net assets as of June 30, 2009 were unrestricted.

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 had adopted the state of Oregon's investment policies which restrict investment types and maturities.

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Balance Sheet - General Fund / Statement of Net Assets - The governmental fund balance sheet includes reconciliation between the fund balance and net assets as reported in the government wide statement of net assets for the following:

Capital assets are not financial resources in governmental funds, but are reported in the statement of net assets:	\$ 5,234
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds:	\$ 39,459
Certain assets will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in governmental funds:	
Deferred revenue	\$ (36,314)

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities - The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between the government-wide statement of activities for the following:

Revenues of the governmental general fund differ from total revenues for governmental activity in the statement of activities. The differences result primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the general fund.

Civil penalties	\$ (124,110)
Change in compensated absences	\$ (16,438)

Governmental funds report capital outlays as expenditures; in the statement of activity the cost of those assets is allocated over their estimated useful lives as depreciated expense:

Depreciation	\$ 4,778
Capital outlay	\$ (768)

NOTE 4 - CASH AND INVESTMENTS

The following is the investment balance as of June 30, 2009:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Money market funds	Less than one year	\$ 19,320
Certificates of deposit	Less than one year	243,000
Annuities	Less than one year	83,594
Total		<u>\$ 345,914</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.

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 4 - CASH AND INVESTMENTS (Continued)

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.

Credit risk - State Statutes authorize the Oregon Landscape Contractors 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.

Custodial credit risk - deposits - HB 2901, which passed in 2007 significantly revised ORS 295 (Depositories of Public Funds and Securities) which governs the collateralization of public funds deposits. The changes streamline the collateralization process and eliminate the need to request and maintain certificates of participation. Under the new law, government entities no longer have to request and maintain the issuance of a certificate of participation for balances over the FDIC insured amount when using a qualified depository. Government entities only need to verify that the bank they use as a depository appears on the list of qualified depositories with the State Treasurers Department. The Board's depository institution is West Coast Bank, which appears on the State Treasurer Department's list of qualified depositors.

NOTE 5 – RECEIVABLES

As described in Note 1, the Board is authorized to impose civil penalties to enforce certain provisions and professional standards related to professional certifications and licensures. Civil penalty receivables as of June 30, 2009 consist of the following:

Civil penalties imposed by Board	\$ 402,158
Less allowance for uncollectible amounts	(365,844)
Total receivables	<u>\$ 36,314</u>

NOTE 6 - CAPITAL ASSETS

The following is a summary of the changes in the Board's capital assets during the biennium ended June 30, 2009:

	Balance 6/30/2007	Additions	Disposals	Balance 6/30/2009
<i>Depreciable assets</i>				
Equipment	\$ 17,205	\$ 768	\$ -	\$ 17,973
Accumulated depreciation	(7,961)	(4,778)	-	(12,739)
Total	<u>\$ 9,244</u>	<u>\$ (4,010)</u>	<u>\$ -</u>	<u>\$ 5,234</u>

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan description - The Board is a participating employer in the Oregon Public Employees Retirement System (PERS). Board employees hired after August 28, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP). 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 actuarially determined contributions from the employer and an employee contribution of six 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 from PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Oregon Public Service Retirement Plan (OPSRP) - OPSRP is a cost-sharing multiple-employer defined benefit and defined contribution pension plan created by the Oregon Legislative Assembly in 2003 as a successor plan for PERS.

- The defined benefit pension plan is provided to members who were hired on or after August 29, 2003. Employer contributions are required by state statute and are made at actuarially determined rates as adopted by the PERS Board.
- The defined contribution pension plan (called the Individual Account Program or IAP) is provided to all members or their beneficiaries who are PERS or OPSRP eligible. State statutes require covered employees to contribute 6% of their annual covered salary to the IAP plan effective January 1, 2004. PERS members retain their existing PERS accounts; however, member contributions have been deposited in the member's IAP since the beginning of 2004 rather than into the member's PERS account.

Other charges - 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 23 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. The rate is applied to subject salaries and during this biennium the rate fluctuated from 6.20% at the beginning of the biennium to 5.95%. The Board's total Oregon General Obligation Pension Bond expense for the biennium ended June 30, 2009 was \$37,300 and is included in the Board's annual pension cost described in the table on the next page.

**OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009**

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial assumptions - Required contributions are determined using the projected unit credit actuarial cost method. Under this method, the Tier 1/Tier 2 regular UAL and Retiree Healthcare UAL as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed 20-year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years from the odd-year valuation in which they are first recognized. Amortization of a change in Tier 1/Tier 2 UAL and Retiree Healthcare UAL due to a change in the actuarial cost method is amortized as a level percentage of combined valuation over a rolling three-year period. Contributions are credited toward the payment of this change in UAL beginning July 1, 2007. For OPSRP UAL, amortization for gains and losses between odd-year valuations are amortized as a level percentage of combined payrolls over 16 years from the odd-year valuation in which they are first recognized. The actuarial value of OPERS assets is reported at fair market value. In order to reduce year-to-year volatility in contribution requirements due to changes in asset value, new contribution rates are confined to a collar based on the prior contribution rate. New contribution rates will not increase or decrease by more than the greater of 3 percentage points or 20 percent of the current rate. If the funded percentage drops below 80% or increases above 120%, the size of the collar doubles.

Annual pension cost - Contributions actually made are equivalent to the annual pension cost. The Board's contributions were equal to the annually required contributions. The following table presents three-year information related to funding of the Board's pension plans:

	2007	2008	2009
Board contribution rates - PERS	4.43%	6.54%	6.54%
Bond debt contribution rate - PERS	6.20%	5.95%	5.95%
Employee contribution paid by Board	6.00%	6.00%	6.00%
Payroll covered by PERS	\$ 175,596	\$ 317,021	\$ 310,435
Annual pension cost and bond assessment	\$ 35,095	\$ 60,529	\$ 52,778

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT PLANS

The Board's employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefit Plans (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) as established by Oregon Revised Statutes (ORS) 238.410 and the Public Employees Benefit Board (PEBB) as established by ORS 243.302. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Retirement Health Insurance Account - The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer OPEB plan which provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must have eight years of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, receive both Medicare parts A and B coverage, and enroll in a PERS sponsored health insurance plan. The Board is required by statutes to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as the result of subsequent actuarial valuations. The rate of each covered employee's salary for the biennium ended June 30, 2009 was .26%

Retiree Health Insurance Premium Account - The Retiree Health Insurance Premium Account (RHIPA) is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the PERS Board and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving disability pension calculated as if they had eight or more years of qualifying services, but are not eligible for federal Medicare coverage. The Board is required to contribute actuarially computed amounts as determined by PERS. Rates are subject to changes as the result of subsequent actuarially determined valuations. The rate of each covered employee's salary for the biennium ended June 30, 2009 was .03%.

Board contributions to the plans for the years ended June 30, 2007, 2008 and 2009 were \$861, \$898 and \$811 respectively, equal to the required contributions each year.

NOTE 9 - EMPLOYEE LEAVE

Vacation leave - Vacation paid time off is earned monthly, depending upon length of service, with a maximum accumulation of 250 hours for any one employee. Accumulated paid time off, based on current salary rates, was \$27,815 at June 30, 2009.

Sick leave - Sick leave is earned at the rate of eight hours per month with no maximum limit. Accumulated sick leave at June 30, 2009 can be used in case of an employee's extended illness or injury. When the employee retires or is terminated, fifty percent of any sick leave accrual terminates and no compensation made for such hours. Remaining balances are transferred to an employee's PERS retirement account on behalf of the employee. A sick leave liability of liability for amounts subject to remittance to PERS is recorded for this benefit. The maximum amount of remittance on behalf of Board employees as of June 30, 2009 was \$11,644.

OREGON LANDSCAPE CONTRACTORS BOARD
(A SEMI-INDEPENDENT AGENCY OF THE STATE OF OREGON)
NOTES TO FINANCIAL STATEMENTS
FOR THE BIENNIUM ENDED JUNE 30, 2009

NOTE 10 - 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 is based upon its share of services provided in a prior period.

NOTE 11 - LEASE COMMITMENT

The Board leases its space from a third party under an operating lease agreement. The agreement calls monthly lease payments of approximately \$2,200 and expires in July, 2013. Total lease payments for the biennium were \$47,737. Future minimum lease payments under the agreement are as follows:

<u>YEAR ENDING JUNE 30,</u>	
2010	\$ 26,400
2011	28,000
2012	29,500
2013	<u>31,260</u>
	<u>\$ 115,160</u>

NOTE 12 - PRIOR PERIOD ADJUSTMENT

During the course of adjusting the Board's accounts as of June 30, 2009, it was determined that revenues for amounts imposed under civil penalties that previously had been recognized, were not recognizable under the current financial resources measurement focus and modified accrual method of accounting used to account for the activities of the general fund. As a result of management's evaluation, the general fund's beginning unreserved fund balance was estimated to be overstated by approximately \$160,424 for previously recognized general fund revenue which should have been deferred until the availability criteria for revenue recognition had been met. Management of the Board determined that the cumulative effect resulting from this correction would have been material to the general fund's financial statements for the biennium ended June 30, 2007. Management restated fund balance as of July 1, 2007 recording an increase of \$160,424 to reflect this correction. There was no effect on previously reported net assets.

REQUIRED SUPPLEMENTAL INFORMATION

OREGON LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
JUNE 30, 2009

	Biennial Budget	Actual			Variance Positive (Negative)
	Original & Final	FY 2008	FY 2009	Biennial	
REVENUES					
License and fees	\$ 873,850	\$ 445,652	\$ 443,281	\$ 888,933	\$ 15,083
Examination fees	137,350	50,420	20,405	70,825	(66,525)
Civil Penalties	200,897	168,711	48,246	216,957	16,060
Interest income	24,000	19,838	9,412	29,250	5,250
Miscellaneous	250	55	40	95	(155)
Total revenues	<u>1,236,347</u>	<u>684,676</u>	<u>521,384</u>	<u>1,206,060</u>	<u>(30,287)</u>
EXPENDITURES					
Personal service	1,237,441	471,458	440,668	912,126	325,315
Service and supplies	217,115	252,718	203,343	456,061	(238,946)
Total expenditures	<u>1,454,556</u>	<u>724,176</u>	<u>644,011</u>	<u>1,368,187</u>	<u>86,369</u>
Revenues over (less than) expenditures	(218,209)	(39,500)	(122,627)	(162,127)	56,082
FUND BALANCE, BEGINNING	<u>393,831</u>	<u>712,147</u>	<u>672,647</u>	<u>712,147</u>	<u>318,316</u>
FUND BALANCE, ENDING	<u>\$ 175,622</u>	<u>\$ 672,647</u>	<u>\$ 550,020</u>	<u>\$ 550,020</u>	<u>\$ 374,398</u>
Prior period adjustment				(160,424)	
Fund Balance, GAAP Basis, June 30, 2009				<u>\$ 389,596</u>	

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 *GOVERNMENT AUDITING
STANDARDS***

We have audited the financial statements of the governmental activities and the general fund of the Oregon Landscape Contractors Board, as of and for the biennium ended June 30, 2009, which collectively comprise the Oregon Landscape Contractors Board's basic financial statements and have issued our report thereon, dated January 12, 2010. 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 Landscape Contractors Board'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 Landscape Contractors Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Landscape Contractors Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Landscape Contractors Board'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 Landscape Contractors Board's financial statements that is more than inconsequential will not be prevented or detected by the Oregon Landscape Contractors Board's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. These deficiencies are listed as 2009-1 and 2009-2.

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 Landscape Contractors Board's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies identified above as 2009-1 and 2009-2 are material weaknesses.

Compliance and Other Matters

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

Oregon Landscape Contractors Board's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Oregon Landscape Contractors Board's response and, accordingly, we express no opinion on it.

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.

Moss Adams LLP

Eugene, Oregon
January 12, 2010

OREGON LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Financial Statement Findings

2009-1

Condition

The internal control structure of the Board has focused primarily on the objective of effectiveness and efficiency of operations. However, the system of internal control over the objectives of reliability of financial reporting contains certain deficiencies. A key element of financial reporting is the ability of management to select and apply appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles.

Management of the Board maintains accounting records primarily on a cash basis of accounting. Preparation of a GAAP-based financial statement for the Board requires sufficient knowledge about full accrual, modified accrual, and budgetary basis accounting. As a result, certain adjustments were required to be made to the financial statements subsequent to the start of the audit process. Adjustments included the recognition of differences between the government wide financial statements and the fund financial statements. Management required assistance with certain disclosures that included the pension plans and other post employment benefits. Also, as described in the *Independent Auditors Report*, Management has not presented *Management's discussion and analysis* (MD&A) that accounting principles accepted in the United States of America have determined necessary to supplement, the basic financial statements.

The cumulative effect of these observations regarding internal control over the financial close and reporting process could result in a material misstatement of the financial statements; this deficiency is deemed to be a material weakness.

Criteria

To minimize the risk of material errors in the financial statements, management should possess sufficient understanding of the basic reporting requirements as required under generally accepted accounting practices in the United States.

Effect

Lack of internal controls and management education about GAAP significantly increases the risk of material accounting errors in Board financial statements.

OREGON LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Financial Statement Findings (Continued)

Cause

Semi-independent State Boards such as the Oregon Landscape Contractors Board are required to produce GAAP financial statements on a biennium basis. The infrequent nature of financial reporting creates conditions which diminish the significance for possessing a thorough understanding about GAAP reporting requirements.

Recommendations

Management and the Board's governing body should assess the adequacy of the design of its policies and procedures related to preparation of financial statements and design appropriate controls as necessary to rectify inadequacies.

Response

The management of the LCB recognizes and acknowledges its lack of understanding and education about GAAP requirements for government reporting of financial statements. Management sees a need to gain this education and is prepared to work with other Semi-Independent Board Administrators (SIBA) to insure this knowledge is obtained in a cost effective manner. Sharing the cost of subject experts in this field to provide joint education opportunities and resources to all the boards will promote increased knowledge and accountability in GAAP requirements for the management of semi-independent boards.

2009-2

Condition

Our audit of receivables and revenue revealed that general fund revenues were recognized prior to the availability criteria having been met in the previously issued financial statements.

Criteria

GASB 33, *Accounting for Financial Reporting for Non-Exchange Transactions* provides accounting guidance under the modified accrual basis of accounting for imposed non-exchange revenues. The standard indicates that recipients should recognize revenues in the period when the enforceable claim has arisen and the resources are available

Effect

Previously reported fund balance, as of June 30, 2007, general fund was overstated. Correction of the accounting error required a prior period adjustment to restate beginning fund balance.

OREGON LANDSCAPE CONTRACTORS BOARD
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Financial Statement Findings (Continued)

Cause

As previously discussed, semi-independent State Boards such as the Oregon Landscape Contractors Board are required to produce GAAP financial statements on a biennium basis. The infrequent nature of financial reporting creates conditions which diminish the significance for possessing a thorough understanding about GAAP reporting requirements. Management was not aware of the specific accounting criteria necessary for revenue recognition under the modified accrual basis of accounting.

Recommendations

We recommend that management evaluate the availability criteria necessary for revenue recognition under the modified accrual basis of accounting when preparing fund financial statements.

Response

It's evident to management that the accounting process for capturing a reasonable portrayal for civil penalties continues to present a challenge to management of the LCB since the collection of these penalties are uncertain and requires significant accounting estimates. Over the past several years management has attempted to implement a process to accurately determine and track the civil penalties which would be collected over a period of time. Our first attempts to implement a process for monitoring civil penalties were determined as cumbersome for operations of the LCB. The Board subsequently decided to revert to a cash basis of accounting to record civil penalties and only record those penalties as revenue when actually received. We considered the input provided from previous audits and historical experience in making our decision to use the cash basis of accounting for recognition of civil penalty revenues. This change has proven as a functional solution for the day-to-day operations of the LCB. However, for financial reporting purposes, the LCB's financial statements are prepared using methods of accounting which differ from the cash basis of accounting in order to comply with GAAP. These differences require that certain adjustments are made to covert from the cash basis of accounting for external reporting purposes only. These methods for accounting for civil penalties acknowledge the amounts of civil penalties imposed by the LCB and require an estimate of their collectability. Management of the Board believes that these methods provide the reader of our financial statements with an improved understanding of the fiscal affairs of the LCB by providing information about amounts of civil penalties imposed and their collectability. Management of the Board has prepared a process to determine an estimate of collectible civil penalties which we believe is reasonable and conservative that may be used in preparing GAAP financial statements in the future. This process will also take into consideration the availability criteria described above.